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The Mortgage Banker

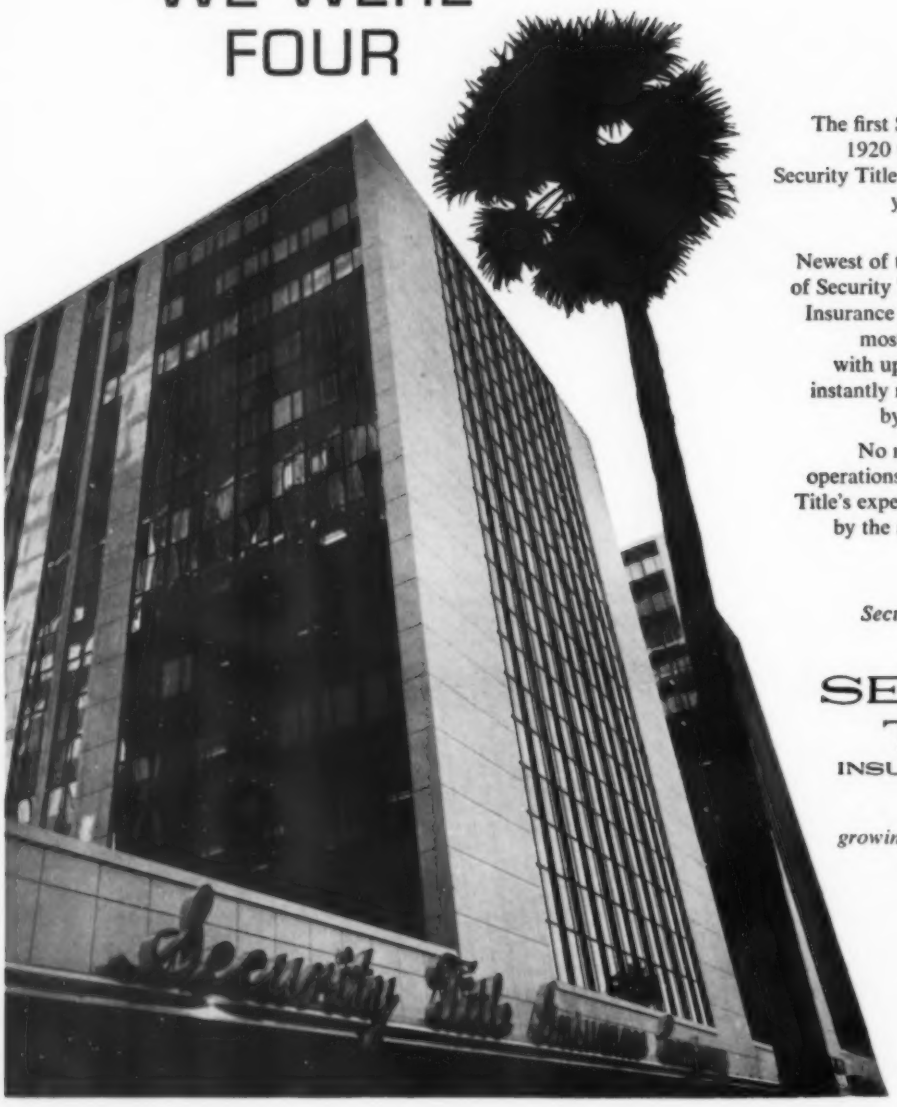


Reflection of the changing times. MBA's Washington Servicing Clinic in the two days there were more than 850—not too far below attendance at the general meetings. See pages 3 and 43 for more about Servicing Clinics.

in this issue — — — — — — — —

PROBLEMS IN NATION WIDE MORTGAGE LENDING—PROBLEMS FACED AND THE SOLUTIONS THAT HAVE BEEN ACHIEVED

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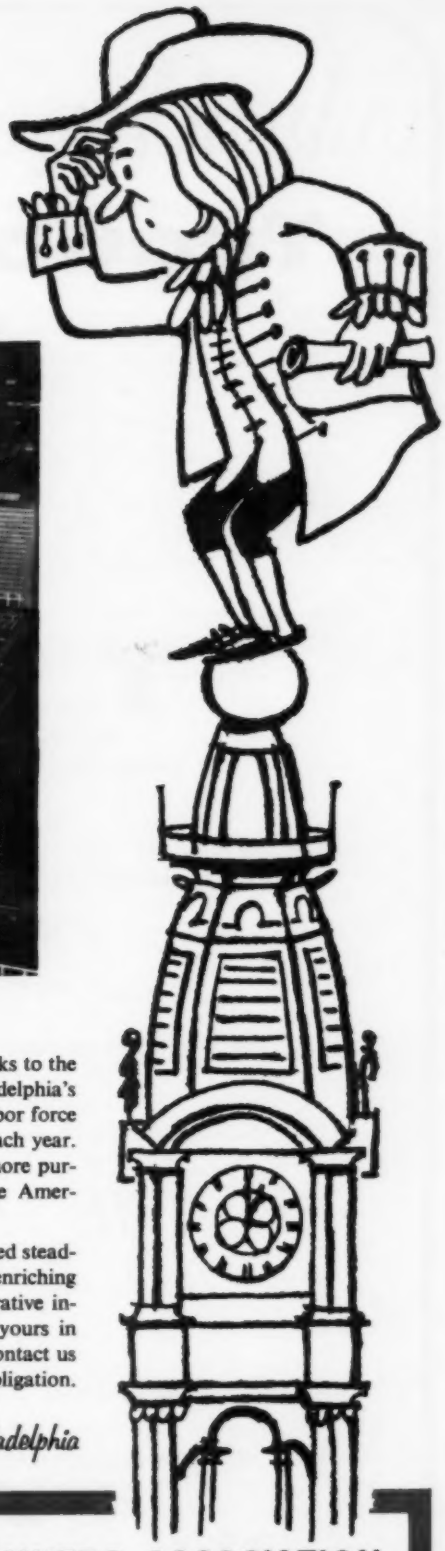
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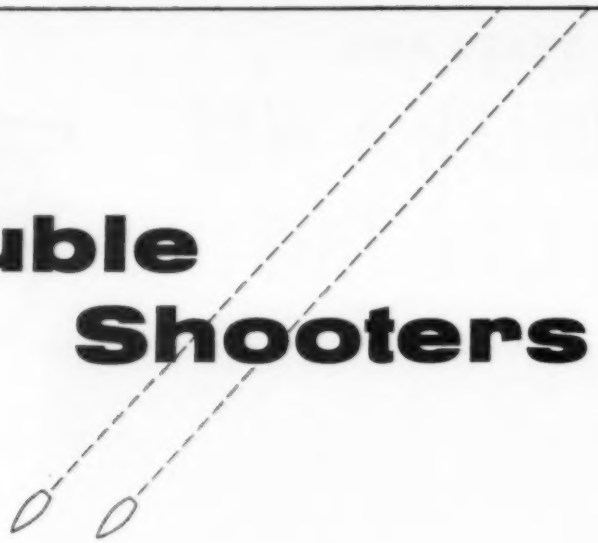
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MBA CALENDAR

April 21-23, Western Mortgage Conference, Paradise and Jokake Inns, Phoenix

May 2-3, Eastern Mortgage Conference, Hotel Commodore, New York

May 19-20, Mortgage Servicing Clinic, Hotel Leamington, Minneapolis

June 19-25, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago.

June 26-July 2, School of Mortgage Banking, Course III, Northwestern University, Chicago.

July 24-30, School of Mortgage Banking, Course I, Stanford University, Stanford, California.

July 31-August 6, School of Mortgage Banking, Course II, Stanford University, Stanford, California.

October 3-6, 47th Annual Convention, Conrad Hilton Hotel, Chicago

The Mortgage Banker

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Executive and Editorial Office
111 West Washington Street, Chicago 2
Tel. RAndolph 6-5704

Washington Office
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GEORGE H. KNOTT, *Editor* — ROBERT J. BERAN, *Associate Editor*

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ON THE COVER: It seems only yesterday when they were considered mere supplements to the general MBA program of conferences and clinics. But not so today. Servicing Clinics have attained full stature, as illustrated by the initial 1960 meeting in Washington where more than 550 came to hear about the latest developments in every aspect of servicing. Escrow administration, insurance, accounting and remittance procedure, collections and deliquencies, loans-in-process accounting—these and two-score more subjects pertaining to servicing were taken apart and analyzed. More than just a highly successful meeting, the Washington Clinic was another reminder of how important servicing has become in operating a mortgage business and the great value the industry attaches to it. On the cover, two views of the Clinic and below, Roger W. Hatch, Clinic Chairman; W. W. McCollum, president, the Metropolitan Washington MBA; MBA President B. B. Bass; and W. W. Dwire, chairman, Servicing Committee. *(For next Servicing Clinic details, see page 43)*

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"Here's how we used The Road to Better Living

and it has proved to be one of the best things we have ever done," says Dale Thompson of Kansas City



"I saw the MBA film at the 1959 Convention and liked it. I thought it did a good job of portraying many of the services which the mortgage banker renders. I felt it succeeded very well in telling a good deal of what the mortgage industry is and its importance in the economy.

"Our firm purchased a print and secured our own equipment for showing it. We contacted organizations of all kinds in our area. So far we have arranged nearly 60 bookings. They have been before all sorts of organizations—churches, sales meetings, real estate, building owners and managers, appraisal, insurance and other business groups, chambers of commerce, real estate boards, service clubs and American Legion posts. On occasions, it has had as many as three showings a day. It's been shown at the Missouri State Real Estate Convention. Advance bookings extend into mid-June. Each showing has been before a worthwhile group—one the mortgage industry is interested in knowing better and one that our industry would like to know us better. As a mortgage industry project, The Road to Better Living has been a notable achievement. But, as we appreciated in the beginning, our sponsorship of the film has been to our advantage, too. Reaction to the film has been good and thus it is only natural that certain advantages would accrue to us because of our sponsorship. It has proved to be one of the best things we have ever done."

Mr. Thompson is president of City Bond and Mortgage Company, Kansas City, and what he has done any firm can do—with advantage for the mortgage industry as well as the sponsoring firm. Prints for member firms are $150 each, or $250 if a special identifying trailer is made.

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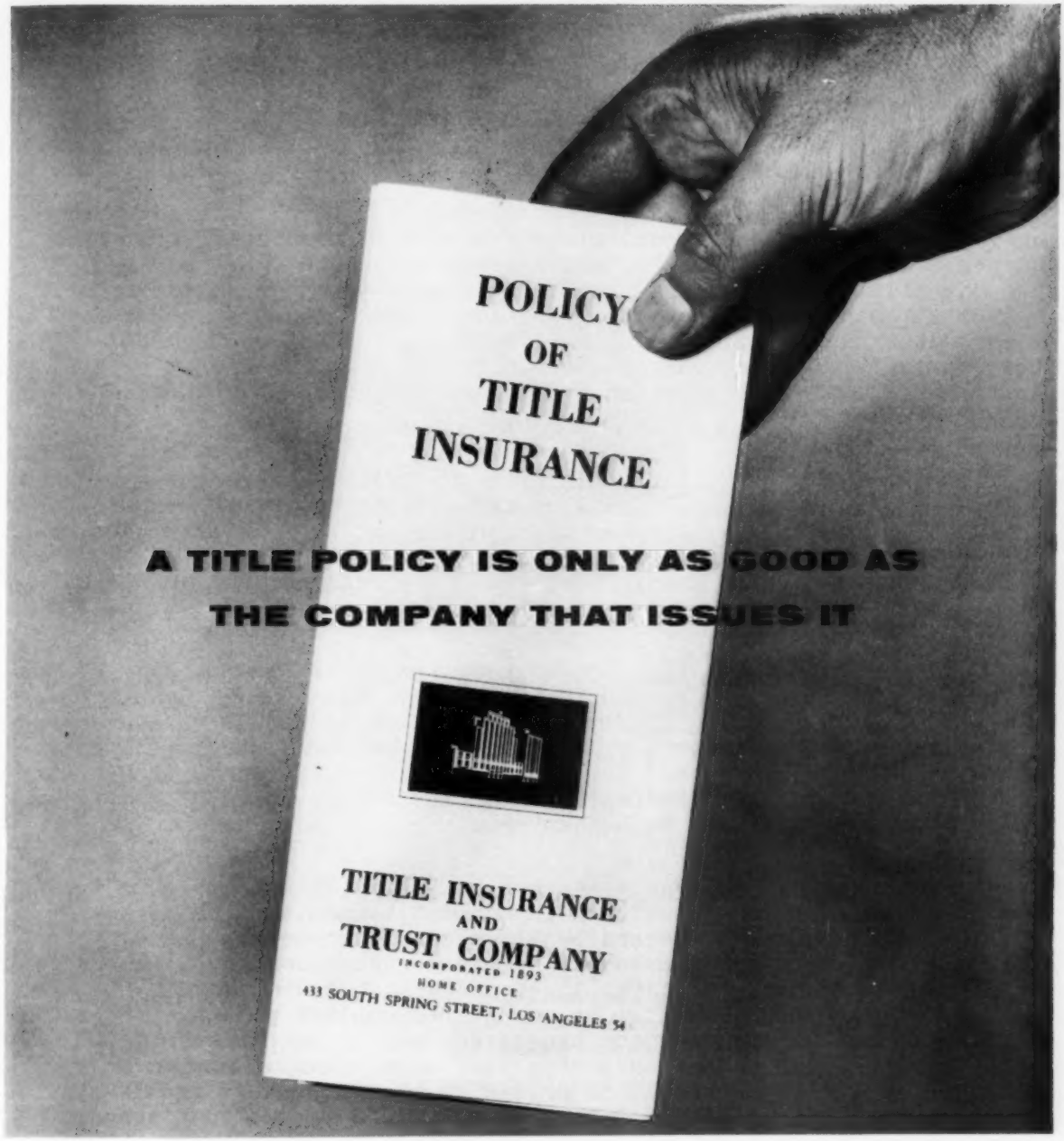
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NEWSCOPE

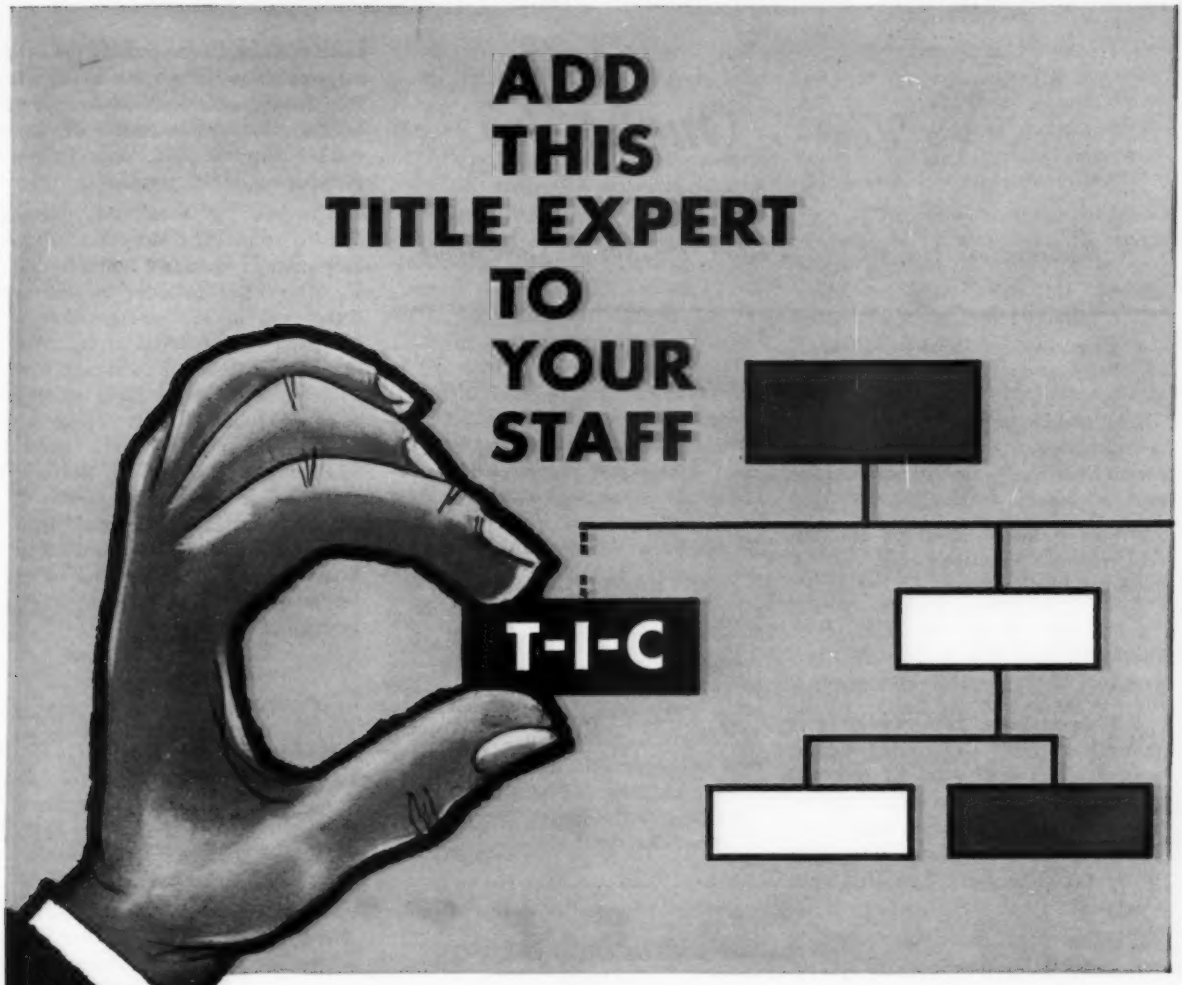
Business in a small nutshell: Extreme tightness in tight mortgage money has eased a bit but rate changes hardly discernible. Most first quarter indices off: FHA, VA, recordings, starts but one year-end forecast still holds: it's going to be a good year. Also off: jobs, industrial output, cars, steel production. Up: most cost of living prices, construction costs, wages. One thing certain about 1960: Its first quarter was something considerably less than what had been predicted but still a satisfactory productive period so save the kicks for later.

On Capitol Hill little legislative activity so far affecting housing and housing financing. Civil rights bill has held the stage. Biggest legislative mail puller has been the Forand bill to provide medical aid to the aged. An encouraging development: apparently Congress will act for sure to make it possible to deduct as business expense difference between par value and market value on FNMA stock.

Will they or won't they let VA home loans die two months from now, not forgetting that this is an election year? Enthusiasm for extension something less than hot. Eighty per cent of World War II veterans have availed themselves of benefits, more than 52 per cent of applicants for home loans now Korean vets. But note: at end of February, 22,000 vets had applied for direct loans with funds only for about 7,500. VA's home loan guaranty program may be a last minute action in Congress.

Mortgage bankers haven't—as some expected them to be—been too active in organizing small business investment companies. Banks have, and of the 82 set up so far, 28 are bank-owned or sponsored. One of three SBI companies selling stock to public was mortgage-company-sponsored. Since the Act became effective, licensed small business companies attracted more than $46 million in subscribed capital yet the program has not been the great success many predicted—but it hasn't been a failure either. Experience so far indicates that some changes must be made. Specifically, it's contended the provision that borrowers from a small business company must purchase from 2 to 5 per cent of the amount loaned should be eliminated. Also, there must be a broadening of the type of securities a company can buy, now limited to convertible debentures or loans, or both. The requirement that furnishing equity capital is a primary function of a SBI has not proved realistic and should be changed. These and other objections, gleaned from initial experience with the Act, have been deterrents and if Congress can get to it, some revisions are sure to come.

Net rate of interest earned by the life companies last year was right at 4 per cent, better than 1958 and during the Fifties but still a full point below the 5 per cent earned 30 years ago. Specifically they earned 3.96 per cent on investments in 1959 as against 3.58 per cent in 1958 and an average of 3.51 per cent for the decade of the Fifties. This is all life company investments, not mortgages alone for which figures are not available.



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Quotes

Reflections of the World Today in Capsule Comments

INFLATION FREE

The threat has gone, for the moment anyway, so say some, among them Charles H. Percy, industrialist and prominent political figure:

"We'll probably have an inflation free year of prosperity in 1960. It's a good solid feeling."

•

MONEY TO CONTINUE COSTLY

The backing and filling in the early months of 1960 has caused doubts among many that year-end forecasts of continued tight money may be wrong. But most people think not, including Orson H. Hart, second vice president, New York Life Insurance Company:

"Unless some startling change in the general business outlook occurs, we ought to expect interest rates to continue on the high side for some months to come."

WE'VE COME FULL CYCLE

We may or may not have won the battle of inflation but one thing is sure: savings and the savers have resumed the places they once had. Said O. Kelley Anderson, president of New England Mutual Life:

"Signs are multiplying that further inflation may not be as much of a threat as heretofore . . . but it is premature to say that the battle has been won. The wheel has turned full circle. The saver, the forgotten man for nearly a quarter of a century, is now being wooed. Here and abroad, private industry and governments are offering him the highest interest rates in three decades."

•

THE SEARCH GOES ON

Although the improvements and innovations in mortgage lending have been many and evolutionary, always there is a constant searching for better ways to do what we are doing—one goal being some method to lure the individual investor—once a big factor —back into the field. Said John W. Remington, ABA president:

"Just as the amortized mortgage opened up a new conception and participation in financing home building, we may need to develop improved techniques in the mortgage market. Research is proceeding on several fronts to discover if mortgage money can be made even more accessible than it is today. The mortgage of the future may contain some carefully worked-out provisions for flexible interest rates. The development of a better mortgage market could help to attract individual investors as well as financial institutions wishing to make larger commitments in long term investments."

•

DO IT FOR CONVENTIONALS

And one of these goals is to do for conventional loans what has been done for FHA and VA loans—give them national marketability. Said Dr. Kurt F. Flexner, ABA director of mortgage finance:

"The rigidities imposed on FHA and VA mortgages rarely benefit those whom the Congress intended to help by imposing these interest rate limitations. Where interest rates are rigid, discounts and other charges take the



place of a more marketable interest rate. Financial institutions, however, are often not anxious to become engaged in these indirect charges of financing which in turn tends to drive money away from housing. This is reflected in the fluctuations of FHA and VA mortgage lending as compared to conventional mortgage lending. Since there is no indication in the statistics that the decline in FHA and VA funds during periods of monetary restrictions is offset by an increase in conventional lending except percentagewise, there is every indication that rigid interest rates drive money away from the mortgage market. The Government should do all it can to help strengthen the private sector of the economy which, in this case, means to assist in bringing about a strong conventional mortgage with national marketability."

DIFFERENT THAN ANTICIPATED

It's true of 1960 so far, the shape of things are not quite the way they were forecast. Said Dr. Paul W. McCracken, professor of business conditions, University of Michigan, and former member of the President's Council of Economic Advisers:

"If the money and capital markets are less congested than had been feared earlier, as now seems possible, residential construction will be stronger in 1960 than had been expected. There is already some evidence that this is developing. The decline in interest rates since the turn of the year has begun to strengthen the mortgage market. In February applications for FHA commitments held even with January on a seasonally adjusted basis, and there are reports that yield rates on mortgages in the secondary market had eased slightly. While some part of the recent decline in interest rates is seasonal, there is reason to hope that the demands for funds will be in better balance relative to prospective supplies than in 1959."

•

LOOK TO THE LONG TERM

If all of today's plans, proposals and suggestions about long-term housing and housing financing were laid end to end it would make a lot of plans, proposals and suggestions. Joseph A. Grazier, president, American Standard Corporation, submits his:

"Violent fluctuations in home building activity are unhealthy for everybody. Without continuity in building programs, it is impossible for the home buyer, the home builder or the mortgage lender to engage in any sound, long-range planning. We should: 1. Make completely certain that the industry is progressing technically as fast as it can; 2. Strive to engender a feeling of integrity in the supply of mortgage funds; 3. Attempt to free FHA from its hostage role with Congress; 4. Persuade the trustees of corporate pension funds to invest a portion of those funds in mortgages; 5. Work for equal tax treatment for real estate investment trusts; 6. Insist that the operations of FNMA remain wholly within the secondary market function; 7. Strengthen existing industry organizations."

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The life companies have done well in parceling out their investment funds all over the country so that premium money from one area is put back to work in that area.

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With 115 million policy holders, the equivalent of nearly two out of every three persons in the population, life insurance is now the nation's most widely owned form of personal thrift.

Of particular significance in the investment figures is the close relationship between the growth of life company investments in various parts of the country and regional expansion trends in recent years. This responsiveness to growth needs is especially evident in the Far West and certain parts of the South which show greater-than-average increases in population and in personal income than occurred in the nation at large during the Fifties.

Data on the investments of companies representing 85 per cent of the assets of all United States life companies show that, for the country as a whole, these investments increased by approximately $32¾ billion, or 69 per cent, in the period from the beginning of 1950 to the end of 1958. The dollar totals involved grew from $47.1 billion at the start of the Fifties to $79.8 billion at the close of 1958.

Growth in mortgages stood out in the investment record. Mortgage investments of the companies grew from $10½ billion to $29.9 billion in the 1950-58 period, a rise of 186 per cent. Funds to promote industrial expansion through investment in bonds of public utilities and in industrial and miscellaneous bonds increased from $15.7 billion to $31.9 billion in the period, up 103 per cent.

Setting the regional pace in the rate of growth for the decade was the group of eight Mountain States running from Montana to Arizona. Investment of life insurance funds in these States increased from $1½ billion at the start of 1950 to $3½ billion at the end of 1958, a rise of 133 per cent.

Paralleling this trend was a population gain of 33 per cent for these eight States between 1950 and 1958, practically double the national average in those years, combined with a rise of 95 per cent in total personal income, close to a third greater than the 73 per cent expansion for the nation as a whole.

Close behind in the regional rate of growth were the Pacific Coast States of California, Oregon and Washington. Here, too, the influence of population and income trends is clearly discernible, with the former up 34 per cent and personal income gaining 95 per cent in the 1950-58 period.

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Life company investments in the Pacific Coast States in the period increased from $4.9 billion to $10.6 billion, a rise of 118 per cent.

Third in growth performance were the West South Central States of Arkansas, Louisiana, Oklahoma, and Texas, where combined life insurance investments expanded from $4.7 billion to $9.7 billion between 1950 and 1958, up 105 per cent. Here the principal factor was rising industrialization rather than above average increases in population and income, particularly in Texas and Louisiana.

Other regional gains in life company investments in the 1950-58 period were:

South Atlantic States, up from $5.8 billion to $10.1 billion, increase of 73 per cent.

East North Central States, $16.4 billion in 1958 versus $9.6 billion in 1950, a rise of 71 per cent.

East South Central States, up from $2.7 billion to $4.4 billion, increase of 64 per cent.

West North Central States, $6.5 billion versus $4.1 billion, up 58 per cent.

Middle Atlantic States, $15.3 billion versus $11.2 billion, up 37 per cent.

New England States, up from $2.6 billion to $3.3 billion, increase of 27 per cent.

As a result of these changes, the five East North Central States running from Ohio to Wisconsin have replaced the Middle Atlantic States of New York, New Jersey and Pennsylvania as the regional leader in life company investments. The Pacific Coast States now rank in third place in this respect, a position occupied by the South Atlantic States at the beginning of the Fifties.

Total life insurance owned in the U. S. at the start of 1960 was $534,000,000,000, more than double the ownership ten years ago. . . . Life insurance owned per insured family is now more than $11,500 compared with about $5,000 a decade ago.

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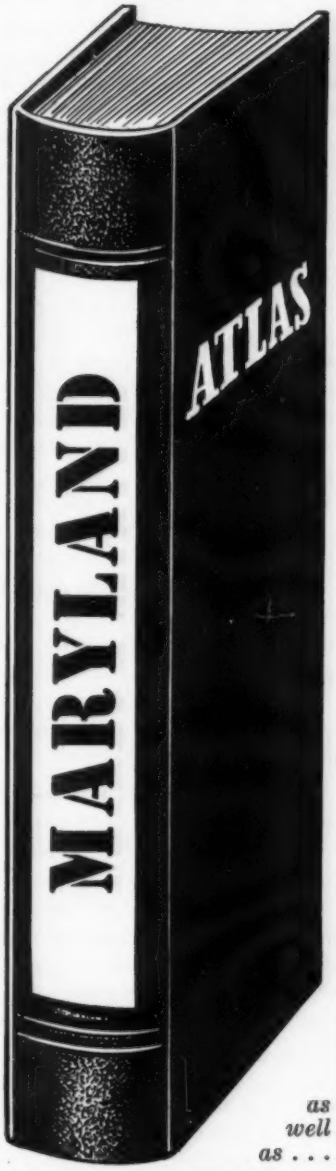
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FHA's RECORD

And what a record—is there any other governmental effort that can match it for accomplishment, fulfillment of objective, business efficiency, service to the people and vision and imagination? FHA's status as of the end of 1959 tells a story of success.

At the end of the year, FHA had total assets of $1,087 million, liabilities amounting to $274 million, and insurance reserves of $813 million, which were $120 million higher than the reserves at the end of 1958. Since 1945, when the first participations in the earnings of the Mutual Mortgage Insurance Fund were paid to home owners who had paid off their insured mortgages, FHA has distributed more than $100 million in these shares.

Insurance written by FHA from its beginning in 1934 through December 31, 1959 aggregated $61 billion, of which $30.8 billion was outstanding at the end of 1959. Total insurance written included $12.4 billion on property loans, $41.4 billion in home mortgage insurance, and $7.3 billion in project mortgage insurance.

Losses to the FHA insurance funds amounted to 29/100 of 1 per cent of the insurance written under all programs—2/100 less than the ratio a year ago. The loss ratio on home mortgage insurance, the largest FHA activity, was 6/100 of 1 per cent compared to 7/100 a year ago, and on property improvement loan insurance it was 84/100 at the end of 1959 as against 89/100 at the end of 1958. It should be noted, Commissioner Zimmerman explained, that losses on property improvement loan insurance include losses on insurance operations prior to the June 3, 1939 amendment which authorized FHA to collect an insurance charge from lenders for this type of insurance.

"Our consistently favorable loss experience," he said, "testifies to the integrity of American families in meeting their obligations, and to the enthusiasm with which they use every opportunity available to them to raise their housing standards."

VHMCP & MBA

VHMCP has placed some 41,000 FHA and VA loans for a total of approximately $400,000,000. Of this, more than 9,000 amounting to almost $90,000,000 were for members of minority groups unable to arrange financing through their own efforts. The remainder were for borrowers in small communities where home financing is often not readily available from local sources.

Half of the loans were made to families with annual incomes of between $3,000 and $6,000, and nearly 60 per cent of the homes they purchased ranged in price from $5,000 to $11,000.

"Had it not been for VHMCP, the 41,000 families who have been helped by this Program would have been unable to obtain the credit they needed to buy their own homes," HHFA Administrator Norman Mason said.

"The VHMCP has done much to provide a more equitable flow of FHA and VA mortgage funds to members of minority groups. Experience under the Program has shown that minority families who are having trouble in

---

American families purchased a record $69.5 billion of life insurance last year—as much as they owned in 1925. . . . Number of life insurance policyholders in the U. S. increased by some 30,000,000 in the decade of the 1950's. There are now about 115,000,000 American life insurance policyholders.

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Continuing on the National Committee are Paul M. Minter, vice president, National City Bank of Cleveland; Nels G. Severin, San Diego; Ehney A. Camp, Jr., vice president and treasurer, Liberty National Life Insurance Company, Birmingham; A. T. Spaulding, president, North Carolina Mutual Life Insurance Company, Durham, North Carolina; Martin R. West, Jr., senior vice president, Weaver Bros., Washington, D. C.; Richard B. Haskell, president, Mechanics Savings Bank, Hartford; Oliver M. Walker, president, Walker & Dunlop, Washington, D. C.; H. J. Munnerlyn, president, H. J. Munnerlyn, Inc., Bennettsville, South Carolina; Gilbert G. Roessner, executive vice president, City Federal Savings & Loan Association, Elizabeth, New Jersey.

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Region I Committee—Claude R. Davenport, president, First Mortgage Corporation, Richmond;

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Region III Committee—W. G. Harpole, vice president, Laclede Bond & Mortgage Company, Louisville;

Region IV Committee—W. W. Wheaton, president, The Galbreath Mortgage Company, Columbus, Ohio; Howard E. Green, president, Great Lakes Mortgage Company, Chicago;

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Region IV Committee—Gordon Seibert, president, Nickels & Smith Company, Minneapolis, Minnesota;

Region V Committee—L. W. Sutton, vice president, Gulf Coast Investment Corporation, Albuquerque;

Region VI Committee—Newell B. Dayton, president, Tracy-Collins Trust Company, Salt Lake City.

New officers for the Lubbock, Texas, MBA have been named. Coffee R. Conner, assistant cashier, Lubbock National Bank, is the group's new president. William H. Pearce, manager, J. E. Foster & Son, is vice president; and Tom Elliott, assistant vice president, Investors, Inc., is secretary-treasurer. Serving on the board are: Oby Stuart, McFarland-Maisen Mortgage Company; J. Ben Cole, J. H. Brock and Company; C. E. May, Key Investment Company; Joe Lynch, T. J. Bettes and Company; and Shedrick Jones, Lumbermans Investment Company.

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By Julian B. Baird
Undersecretary of the Treasury

And the problem is a successful fight against inflation and preservation of the sound value of the dollar. The step that can be taken now that would do the most good is to remove the rigid 4¼ per cent ceiling on government financing. In the area of national debt management are included some of the most vital problems affecting the future of U. S. prosperity but, until recently, few have been willing to face up to the responsibilities they involve.

INFLATION is our primary economic danger as we turn the corner into the new decade. If we do not markedly strengthen our efforts to protect the value of the dollar, much that we have worked so hard for in our domestic economy, as well as internationally, may be lost to us.

The United States is a rich country. In many instances, we can afford mistakes in policy—even costly mistakes—and still get back to shore. But loss of confidence in the value of the dollar is not one of these instances. It is a different type of problem entirely. The social and economic losses sustained through serious or prolonged erosion of the currency—which is another term for serious or prolonged inflation—are not easily regained. At best, the damage can be repaired only at the cost of a program of austerity. The hardships and inequities which result from inflation cannot be readily equalized; they deeply injure the moral fiber of the nation. Worst of all, if the example of many other nations means anything, we would be in danger of losing some of our economic freedoms in a drift toward socialism.

Whether we like it or not, this nation finds itself a leader of the free world—economically, financially, militarily.

The President pointed out in his State of the Union Message that "Inflation's ravages do not end at the water's edge." He was referring to our international balance of payments position, which has been in deficit in each year since 1949, with the exception of 1957. Recently the deficits have risen to a high level—about $3½ billion in 1958 and approaching $4 billion in 1959. Large deficits cannot be sustained safely for a long period of time if we are to have a satisfactory pattern of our balance of payments and if the dollar is to function properly as the world's major reserve currency.

This heavy and continuing deficit in our international balance of payments situation is a relatively new phenomenon to us. For many decades

until this last one, we have enjoyed a generally favorable balance of international payments. Then, largely as a result of wars, our export position became for a time extremely favorable—the shortages of both goods and financial reserves abroad led us properly to help industrial nations rebuild their economies through the Marshall Plan and other measures. But now the "dollar gap" has long since been eliminated. Therefore, we must adjust our thinking to the changed conditions, under which the industrial countries abroad are accumulating surpluses in the form of gold and dollars.

Since World War II our nation has become the world's leading banker—and like the typical banker, we have lent long and borrowed short. Short-term claims on us held by foreign countries, largely deposits in banks and Treasury bills, have built up from under $7 billion at the end of the war to $17 billion at present. Dollar holdings, therefore, supplement gold as the basic international reserves for most of the currencies of the free world.

This means that foreigners now have an important stake in how we manage our affairs.

The administration is taking appropriate steps to try to reduce the size of the payments deficits. It is our resolve that these steps continue to be consistent with our objective of promoting an expanding volume of world trade. But it should be readily apparent that a basic factor in our payments deficits is the cost-price structure in this country. Our ability to expand our exports will be impaired if this structure is not competitive. Here we again come back to the stability of the dollar.

In a complex economy, producing goods and services at a rate of a half-trillion dollars a year, the causes of inflation are bound to be complex; thus there is no simple cure to the inflation problem. Moreover, the task of controlling inflation does not start and stop on the banks of the Potomac; individuals in every walk of life, institutions of all kinds, labor, management—each and every one of us must handle his economic and financial affairs on the basis of enlightened self-interest.

In the last analysis, public opinion will tip the scales. It seems to me that we see evidence of some progress in this respect. Surely there is a growing realization that wages cannot, on the average, increase faster than the over-all increase in productivity without prices following suit. Some of the public opinion polls indicate this lesson is beginning to sink in. Let us hope that we won't have to learn the lesson the hard way as so many other nations have had to do.

No, the Government can't do the job alone, but nevertheless its efforts are the *sine qua non*. The battle against inflation will surely be lost if we fail to maintain financial responsibility in Federal Government activities. By financial responsibility I mean three things: a surplus in the Federal budget during periods of prosperous business activity; monetary discipline, so that excessive expansion in credit and the money supply is not allowed to tip the scales toward inflation; and debt management actions that support anti-inflationary budget and monetary policies.

As for the budget—although it was said by many observers that it couldn't be done—the President a year ago submitted to the Congress a balanced budget for the fiscal year 1960. He led such a vigorous fight for its adoption that the President could report in his recent State of the Union Message that the 1960 budget, in spite of the steel strike, is still in balance. Far more important, the President disclosed that the 1961 budget will not only be in balance, but indicates a surplus of $4.2 billion, the largest surplus of his Administration.

The case for balanced budget was taken directly to the people of this country. I believe they are now coming to realize that the United States cannot continue indefinitely to live beyond its income and still be able to fight effectively the external challenges which we face on both military and economic fronts.

A balanced budget is an important and an understandable symbol of sound fiscal policy and of good government.

A balanced budget works for a growing economy. It inspires confidence. It works against inflation.

If we are to continue to carry for an indefinite time the heavy burdens on the military and civilian fronts which the cold war makes essential, we must have an economy which will grow, which will be dynamic. We need people who understand that there is no substitute for hard work, careful planning and true saving. We will grow as a country only if we produce more than we consume and use our surplus to provide new sources of production. With assurance that the value of their dollars will be protected, people will be willing to work harder, save more, and invest more.

Saving is not easy. It requires that people deliberately deny themselves present benefits for greater future benefits. The large saving effort that will be called for to meet the new capital requirements of this decade needs the assistance of an environment conducive to saving. This means that the threat of inflation must be removed.

One of the best ways to restrain inflation is for the Government to



While no single area of the economy can claim favored treatment in doing what certainly should be done in removing the ceiling, nevertheless, as Mr. Baird says "there will be more mortgage credit available with the ceiling off than with it on. In addition, the cost of interim financing should be lower than otherwise. . . The American people must make a decision . . . they can choose artificially low interest rates created by soft money and accept the inflation that results . . . the other choice is to permit flexible interest rates and thus fight inflation. . ."

retire debt in a period of economic expansion. Retiring debt has a wholesome effect in holding down interest rates, or actually lowering them, as occurred during the decade of the 1920s.

If we are realistic we must recognize that we will not achieve debt reduction on any substantial scale unless we can find wider public support for programs calling for reducing, or at least holding the line on, expenditures at the Federal Government level.

From the point of view of the Treasury Department, the most important piece of business which Congress left unfinished upon adjournment last fall was granting to the Treasury the additional statutory authority necessary to manage our record Federal debt without adding to inflationary pressures.

In order effectively to do its job in handling the public debt, the President in June of last year asked Congress to remove the 4¼ per cent interest rate ceiling on new issues of all Treasury bonds running more than five years to maturity. The Congress debated the matter but did not act, despite renewal of the President's request in August. In January this year the President, for a third time, asked Congress for removal of the artificial interest ceiling, passed in 1918, which is restricting flexible debt management.

The House Ways and Means Committee reported favorably last Feb. 23 on a bill that does not completely eliminate the interest rate ceiling as the Administration has believed desirable. However, the bill would, at least in the period immediately ahead, permit the Treasury to accomplish the debt lengthening which is so essential in the national interest.

We cannot predict the course of the legislation through the House and Senate but we will continue to press vigorously for corrective legislation, preferably in the form originally submitted by the President.

I am going to restate some of the reasons why we think corrective legislation is so important.

Today the current pressure for funds by businesses, state and municipal governments, home builders, and other borrowers makes heavy demands on the volume of savings and, as we are all aware, has pushed up interest rates. The Treasury, because of the 4¼ per cent ceiling, cannot sell new bonds of more than five years' maturity. It must, therefore, borrow wholly on short-term securities. Much of this borrowing is potentially inflationary; under current market conditions it is costly; it hurts consumers and small businesses; and it creates ever greater debt management problems for the future.

Crowding all Treasury borrowing into the short-term market adds to inflationary pressures for two reasons. In the first place, a long-term bond is a true investment instrument, but a short-term Treasury security is only a few steps away from being money. It can be sold easily in the market, at or close to its maturity value, to obtain funds to spend for goods and services, or the holder can simply wait a few days or weeks until it matures, demand cash from the Treasury, and spend the proceeds.

From a purely technical standpoint, such sale or redemption does not increase the money supply as ordinarily defined but it has much the same effect. This is for the reason that the short-term securities are cashed by a holder who intends to put the proceeds to active use whereas the new buyer is using funds that otherwise would be idle.

Secondly, commercial banks make up a much larger part of the market for short-term Treasury securities than they do for long-term issues. When commercial banks buy securities they create new demand deposits in the process, and this, as we know, adds to the money supply. An expanding money supply, during a period when pressures on economic resources are intensifying, adds momentum to inflationary forces.

The handling of our $290 billion debt in an inflationary manner is bad enough, but that's not all. Sole reliance on short-term borrowing is costly today, because interest rates on most securities of less than five years' maturity are higher than those on longer-term issues. Every borrower in the under five-year range is penalized.

It is only common sense that the confinement of all borrowing to one segment of the market tends to drive up interest rates in that part of the market. The fact is that the short-term market is already overcrowded, reflecting the impact of heavy deficit financing, record credit demands on the part of consumers, small businesses, and other short-term borrowers. This overcrowding means that somebody is going to get pinched, so long as the Treasury has to borrow exclusively on short-term issues.

In addition to being inflationary, costly, and unfair to private short-term borrowers such as consumers and small businesses, Treasury financing wholly in the short-term range can only add to future problems of debt management. Currently almost 80 per cent of the marketable public debt matures within five years, and that total is growing. As more debt is piled into this area, future refundings of maturing issues will have to be undertaken more frequently and in greater amounts. As a result of doing all of our financing in the short area for the last year, the average term of the marketable debt is now reduced to four years and three months, the shortest in our history. The situation is comparable to one that might be faced by an individual with a mortgage on his home that matured every two or three years. He would be forced to refinance that mortgage, if he could, each time it came due, and under whatever conditions might be prevailing at that time. This certainly is not a desirable arrangement. However, that is the position the Treasury finds itself in.

It has been alleged by some that the removal of the 4¼ per cent ceiling would raise interest rates. We do not believe that this would be the case. Actually, the inflationary aspects of debt management policy under the present ceiling could, as time goes on, raise increasing apprehension both here and abroad as to the future value of the dollar. Nothing contributes so strongly to forcing interest rates upward as *fear of inflation*. Those investors who want to put their money in a savings account or invest in fixed-dollar obligations—rather than in stocks or real estate—will demand a higher interest rate to compensate for their expectation of a shrinking purchasing power of the future repayments of principal and interest.

In effect, we are seeing a renewal of the old conflict between the advocates of soft money and pegged interest rates versus those who stand solidly for sound money and flexible interest rates. In fact, if one reads the debates

(Continued on page 30)

Lending Nation Wide

Spectacular as have been the evolutionary changes in mortgage lending, lending nation wide has presented problems of its own which are being solved

We Have Come a Long Way

Spectacular as has been the expansion of mortgage lending in the past three decades, the area which has shown the most expansion has been the nation wide sector. A development of only within recent years, this phase of mortgage investment has met and solved a variety of problems. Recently John J. Redfield of the New York law firm of Cadwalader, Wickersham & Taft and three of his associates joined to explain and interpret for New York MBA members the current status of three of these areas:

First, the problem of "doing business" in many states by a foreign corporation.

Second, taxation of mortgage investments and investors.

Third, foreclosure legislation needed in various states.

Some comments and observations in each of these areas follow with recommendations for changes.

But these are not all the problems, as Mr. Redfield pointed out. "There are other legal problems. There is the question of usury which has taken on a fresh meaning with the recent rise in interest rates. Investment powers of out-of-state mortgage investors from different states and different types of organizations within the same state raise another problem. Another problem relates to the laws and regulations affecting FHA insurance and VA guaranties of mortgage investments. All these matters are constantly changing, and an investor must keep himself continuously informed in order to prevent an out-of-state investment portfolio from becoming an 'out of date' investment portfolio."

Many "Doing Business" Laws Helpful to Mortgage Investment

No other problem which the nation-wide character of mortgage lending created is more important than that of "doing business"—what constitutes doing business, and how can investors avoid the burdensome hazards and responsibilities which often accrue to a mortgage lender operating across state lines? Mr. Devine gives a ten-point program for mortgage investors doing an out of state business to follow to avoid the risks they must avoid. The most desirable solution to this problem, he adds, would be the enactment by every state of a statute similar to the one in Tennessee.

By J. Dudley Devine

The "doing business" concept is not a unitary one but varies depending upon the circumstances under which it is used. What may be "doing business" for qualification, for service of process or for taxation purposes is often different. These remarks are restricted to problems arising from local statutes which require the licensing or qualification of foreign corporations "doing business" in the jurisdictions in which such statutes have been enacted.

Unlike an individual, a corporation has no inherent right to engage in activities in a jurisdiction other than the one in which it was created. Except for the limited right arising under the interstate commerce clause of the Federal Constitution, a foreign corporation engaged in interstate mortgage investment activities must seek permission of the state in which it intends to carry on its operations. If the nonresident corporate lender fails to secure such permission but proceeds anyway the penalties imposed may be drastic. Severe money penalties may be exacted and access to local courts to enforce or foreclose the mortgage may be denied.

The specific activities which constitute the "doing business" vary from state to state. They may or may not, in any particular state include the buying and selling, suing or defending a suit, maintaining agents, lending and borrowing, transferring securities, opening bank accounts, owning or leasing real property, participating in joint ventures or making a contract of any nature. The use of local courts to conduct foreclosure proceedings may even be included.

On the other hand any one of these activities may not, under local law, be deemed to be "doing business."

Some 40 states have enacted statutes providing that unlicensed foreign corporations which enter into contracts locally while doing business are barred from maintaining suits on those contracts. In some of these states, such as Alabama, South Dakota and Utah, subsequent qualification will not remedy the denial of access to the courts. Even in many states where such a corporation can cure the defect by subsequent qualification, the courts may impose heavy fines, as, for example, in Ohio, Louisiana and Texas. In states such as Kansas, Kentucky and Tennessee where "doing business" without proper qualification does not result in the disability to use the

courts, a monetary penalty may be exacted. In jurisdictions like Arkansas, Illinois and Nebraska foreign banks are not permitted to qualify at all.

Not only must the out-of-state investor be wary of its own out-of-state activities but it must avoid the exercise of that degree of control over its local servicing representative which would constitute him as an agent rather than an independent contractor. If such a situation exists, the foreign corporation is brought into the state for "doing business" purposes as surely as if it entered itself.

Recourse to the federal courts does not present an escape from "doing business" penalties. The United States Supreme Court has held that the diversity of citizenship route will not permit the use of federal courts by a foreign corporation which has been denied the use of local courts because of the illegal conduct of business.

Within the "doing business" context the out-of-state corporate lender will be concerned with three general areas of activity. These are direct lending, the purchase of locally-originated loans and the collection and servicing procedures used in connection with both of these types of investments.

Direct out-of-state lending, as well as direct out-of-state servicing, should generally be avoided as constituting the doing of business. While a state may wish to bring in outside money for the purpose of purchasing locally-originated loans, it may well wish to reserve the origination and servicing functions to domestic organizations.

With respect to the secondary purchase of locally-originated loans and the employment of local servicing organizations, many states have acted to circumvent "doing business" penalties and thus encourage the interstate flow of mortgage investment funds either through administrative rulings or by the adoption of favorable legislation. In states such as Ohio and Rhode Island, local authorities pursuant to informal ruling or otherwise are not applying restrictive regulations against "doing business" with respect to the out-of-state mortgage investor.

In some jurisdictions such as Arizona, New Mexico and South Carolina, a simplified and inexpensive form of qualification is available to the out-of-state mortgage investor which restricts its activities to those permitted by local statute. To achieve this limited qualification a foreign corporation generally need do nothing more than file a certificate appointing the Secretary of State or someone else as its agent for service of process and a certified copy of its charter or articles of incorporation. The filing of reports with local taxing authorities is sometimes required and a nominal filing fee must be paid.

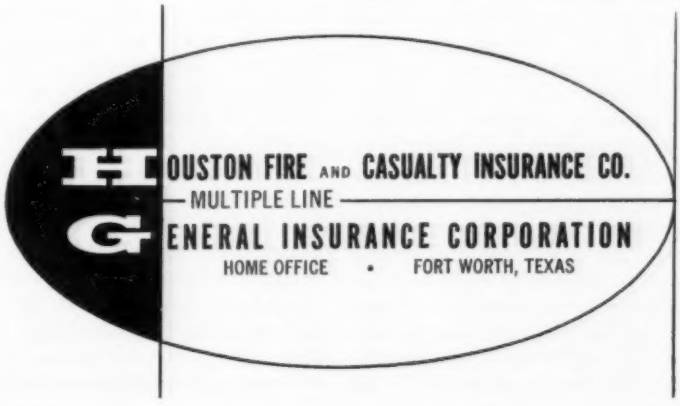
A number of states such as Kansas, Oklahoma and Tennessee have adopted broad types of statutes which absolve a foreign corporation engaged in local mortgage investment activities from having to qualify.

Statutes similar to the Tennessee law are the most favorable from the out-of-state lender's point of view. The Tennessee statute explicitly authorizes, without qualification, the acquisition of mortgage loans or participations or interests therein, all of the usual activities incidental to the acquisition and holding of such loans, the servicing of same through local contractors, and the taking of title to real property through foreclosure and otherwise, and the maintenance and operation of the property thereafter.

Even in the *most favorable* states, however, dangers exist such as, for example, the failure to limit investment activities as prescribed by statute or the failure of local courts to pass on the constitutionality of a favorable statute. Thus, it is recommended that the out-of-state corporate investor follow certain rules in conducting any mortgage investment program. The following procedures should be carefully observed in order to insulate the transaction from "doing business" risks.

- Do not maintain offices, employees or agents in a local state.
- Specify in servicing agreements that the servicer is an independent contractor. Avoid relationships with originators, servicers, mortgage companies or the like which might support a finding that they are acting in an agency capacity. Be careful in dealing through brokers in the local state, as such have been held to be agents.
- Ascertain that the mortgage originator has not conditioned the making of the original loan on obtaining a commitment from the out-of-state investor.
- Do not conduct initial negotiations, consummate agreements or execute contracts in a local state.
- All contracts or commitments should by their terms be governed by the law of the foreign lender's state of domicile.
- Strictly limit site and information inspections.
- Make certain that originating mortgagees and all intervening parties are either domiciled or fully qualified to do business in the local state.
- To the extent possible, all mortgage documents should be retained in the actual possession of the out-of-state investor.
- All payments for purchases of loans and other disbursements should be made in the state in which the foreign investor is domiciled.
- Dispose of all property acquired in foreclosure as promptly as possible and avoid operation of properties held following foreclosures unless local law permits foreign corporations to own and operate real estate without restriction.

(Continued on page 24, column 3)



Investors Have to Watch Their Taxes in Mortgage Investment

The problem of taxes and how to pay them—and/or, how to avoid them—is not peculiar to mortgage lending or any specific field of business and finance. But there are some tax problems in mortgage lending which are assuming an important and heretofore little known role. Recently the Supreme Court sustained a tax on net income of two corporations engaged exclusively in interstate commerce where the levy was not discriminatory, was apportioned and the local activities constituted a sufficient minimum contact to support the tax. Thirty states have similar laws and says Mr. Draper, "we can no longer . . . be certain that interest on mortgage investments from out-of-state sources may not be subject to income taxes which would make net yields non-competitive." In many states, it may surprise many mortgage lenders to know, there is certain tax legislation on the books which could react very adversely to mortgage lending. These are the states which don't have all the mortgage funds they need—but the threat is there. Mr. Draper says, as Mr. Devine emphasized, that servicing agreements should always be drafted to make the servicer an independent contractor—the tax angle is all important here.

By Daniel C. Draper

The ever expanding and developing field of local taxation of income derived from interstate commerce presents, to the out-of-state mortgage investor, a more continuing problem than qualification. Obviously, if a mortgage investor must pay local income or franchise taxes on its mortgage investment income, mortgage investments in the state involved become non-competitive and the investor would suffer substantial losses in the value of its existing portfolios if a state levied such a tax.

There are a number of developing trends in this field that conflict, *first*, the larger picture of taxation of interstate activities generally. Recent Supreme Court decisions have highlighted the trend of affording wide scope to state taxes. In two of these the Court sustained a tax on net income of two corporations engaged exclusively in interstate commerce where the levy was not discriminatory, was apportioned and the local activities constituted a sufficient "nexus" (or minimum contact) to support the tax.

In the thirty states that have taxes susceptible to this treatment we can *no longer*, as a constitutional matter under the interstate commerce concept, be certain that interest on mortgage investments from out-of-state sources may not be subject to income taxes which would make net yields non-competitive. The trend evidenced in recent decisions suggests that the Supreme Court might even hold the act of investment itself a "nexus" for taxing income even though qualification was not required.

The scope and impact of the cases referred to on interstate business generally has produced federal legislative counter-action and the last Congress, by statute, banned state income taxes on transactions where only orders were solicited in the state. This statute would have no effect on interstate mortgage purchases because it is limited to "solicitation of orders . . . for sales of *tangible* personal property" [emphasis supplied]. Commerce Clearing House, Inc. in their Corporation Guide, dated September 3, 1959, entitled "Interstate Income Law" indicates that Congress regards this legislation as temporary and has "provided for a thorough study by the House Judiciary Committee and Senate Finance Committee, to be followed by proposals for permanent legislation by July 1, 1962."

The Committees might recommend legislation which will give interstate mortgage operations substantial immunity from local taxes if bar associations, builders, mortgage investors, originators, servicers, and the FHA and VA would support such legislation. It would clearly be in their self-interest to back a proposal barring state taxation of mortgage income in interstate commerce. The legislation, however, would have to be carefully drafted to achieve this result.

Statutes and rulings exempting mortgage interest from local taxation, which are based ultimately on the self-interest of the states themselves, reflect another counter-trend to the recent Supreme Court decisions. Simultaneously with the increasing scope of state taxation, and perhaps partly as a result of it, in order to encourage mortgage investments, states like Tennessee and Nevada along with their broad qualification statutes have enacted provisions which *exempt* mortgage interest from local taxation. Recently, however, a "doing business" statute which incorporated such a provision was disapproved by the California Franchise Tax Board. In Arizona, California, Colorado, Indiana, Iowa, Michigan, Missouri, New Mexico, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, Virginia and West Virginia, local taxes *might* apply to a foreign lender but pursuant to informal ruling or otherwise, local tax authorities are *not* presently collecting taxes.

Aside from the possibly temporary effects of current "tight" money policies, most of these states do not generate sufficient mortgage funds to finance current housing growth, and, therefore, despite the theoretical possibility that local tax authorities might change these rulings, their own self-interest indicates that it is unlikely that they would do so. Even assuming local authorities changed these rulings, for both legal and practical reasons, the chances that they would do so retroactively are not great. In the event that a local tax ruling was changed only prospectively—again unlikely in my judgment—the investor could always sell its portfolio to other investors already paying taxes in the state.

The two cases to which I referred earlier require a "nexus" (minimum contact) to support the local tax. Servicing activities attributed to the investing bank on an agency theory represent the "chief contact" and candidate for a "nexus" in the out-of-state mortgage investment field. This "nexus" really amounts to what courts formerly called "doing business" under another name and in an attenuated

form. For this reason, and for reasons mentioned by Mr. Devine, servicing agreements should *always* be drafted so as to make the servicer an independent contractor. If a state should claim a tax, from the legal point of view, the investor should always be in a position to fall back on the independent contractor status of its local servicers and, on this basis, be in a position to deny that it had sufficient contact within the state to justify local taxation under either the local statute or state or federal due process clauses, or a combination of them. Under these circumstances, and based on local counsel's advice as to the practical and legal factors in the particular state involved, many investors have come to the conclusion that they can prudently rely on administrative interpretations and rulings as to local tax laws.

Mr. Redfield concludes that . . .

In the field of "doing business" the remedy appears to be the widespread adoption of state legislation removing secondary mortgage investment activities from the field of "doing business," or, as a perhaps less satisfactory alternative, legislation providing for a limited qualification by out-of-state mortgage investing corporations, which would authorize them to perform all necessary activities.

In the field of taxation, local statutes exempting mortgage interest from local taxation are the best remedy for this problem of the out-of-state mortgage investor, but the possibility of federal legislation to give interstate mortgage operations substantial immunity from local taxation should not be overlooked, nor should the obtaining of favorable rulings by local tax authorities.

In the foreclosure field, because of the traditional control by a state over laws affecting its real property, local legislation appears to offer more hope than federal foreclosure legislation, and it would be gratifying to the out-of-state mortgage investor to see a movement among the states to enact the Model Power of Sale Mortgage Foreclosure Act, with a helping hand from the federal government to take care of the federal tax lien situation.

As one can see from the foregoing observations, the present state of the law is most unsatisfactory, both from the point of view of the out-of-state investor and the local mortgage originator. Mortgage organizations should seize every opportunity to press for solutions to these problems. Only through such solutions will the flow of mortgage money across state boundaries be facilitated, to the end that the housing needs of all segments of our population may be adequately met.

Needed As Much As Ever: Modern Laws of Mortgage Foreclosure

Nearly a quarter century ago there was drafted a model foreclosure act. During the years since that time there have been all sorts of agitation and movements to get it on the books of various states. So far not one has acted. True, a great deal has been done in many states (in Wisconsin, as noted here), but unfavorable foreclosure statutes, necessitating great time and expense, remain a barrier to the free flow of mortgage funds across state lines. Mr. Tomkins reviews the current status of foreclosure legislation, citing the states that are not favorable for investors and those which are.

By Floyd W. Tomkins, Jr.

Real estate law, more than most law, is subject to local variations and peculiarities because of the immovable nature of its subject matter. Nothing shows this more clearly than the diversity of state laws on foreclosure of real estate mortgages. Since the difference in these laws can mean a difference in time and expense in realizing upon the security, they must be taken into account, by the out-of-state mortgage investor, for their possible effect on the investment yield, especially if there should be a period of depression.

There are two principal types of foreclosure, one by bringing an action in a court and the other by advertisement and sale without court action pursuant to a power of sale contained in the mortgage instrument. In general, the court foreclosure is more expensive and time consuming since it requires pleadings, often a hearing, a judgment and order of sale and other incidents of litigation. Aside from attorney's fees, there are varying court costs, referee's fees, sheriff's fees, trustee's fees and so on, depending upon the jurisdiction. The power of sale type of foreclosure, of course, also has its own assortment of advertising costs and fees of the trustee or official conducting the sale. In some states, where the trustee under a deed of trust is entitled to a statutory fee for foreclosure sale, the investor can save money by appointing a trustee who will accept an agreed compensation.

High costs can be somewhat offset by favorable local laws allowing costs and fees, or most of them, to be recovered out of the proceeds of the foreclosure sale. Such laws are valuable so long as the market holds up enough to bring the investor out whole. A few states, like Ohio and Kansas, limit the lender's right to recover foreclosure costs to an unusual extent. This tends to make these states less attractive to the investor despite the fact that foreclosure expenses are comparatively low. Other states, such as Delaware, have high costs but unusually favorable cost recovery statutes.

Where the conventional mortgage lender must absorb all foreclosure costs, the FHA and VA programs permit reimbursement for costs other than attorney's fees in connection with the claim for payment of the insurance or guaranty. Such reimbursement by FHA insurance is limited to two-thirds of the cost or $75, whichever is greater. In addition, the VA guaranty permits limited reimbursement for attorney's fees, but it is well known that the permitted amounts

often fall considerably short of the fees actually incurred.

Excluding the states which have favorable cost recovery statutes, the high cost of foreclosure or the limited right to recover costs makes mortgage investments noncompetitive in these states: Illinois, Indiana, Kansas, Ohio, Oregon, Washington and New York.

Right of redemption is major stumbling block in many states

From the point of view of time required for a foreclosure, even worse than delays resulting from judicial foreclosures, are the rights of redemption found in many states. These laws are usually found in farm states and were passed to protect farmers whose crops when sold might enable them to reinstate the mortgage. Unfortunately, however, the right of redemption laws, in those states which have them, apply equally to non-farm mortgages, and it can be as long as eighteen months after a foreclosure sale until the title to the property is finally confirmed to the purchaser.

Here again the VA lender has an advantage since the VA will accept title to foreclosed properties which are still subject to rights of redemption. FHA, except in unusual cases where the redemption right presents no substantial risk, will not accept properties until redemption rights have expired, and of course, the conventional lender has no market for such foreclosed properties until the rights of redemption have expired.

We have found the following states to be unsatisfactory from the point of view of our investor clients with respect to lengthy periods of redemption: Arkansas, Colorado, Connecticut, Iowa, Kentucky, Maine, Michigan, Minnesota, Missouri, New Mexico, Utah and Wisconsin. Nebraska and Oklahoma, although not requiring an excessive redemption period, produce the same adverse effect through laws requiring a noncompetitive time for foreclosure. In addition, the states mentioned earlier as having high costs are also noncompetitive in so far as the period of foreclosure or redemption is concerned, except New York and Ohio.

Many factors besides those already mentioned affect the time and cost of foreclosure. When the mortgaged property is subject to a Federal tax lien it may be necessary to forego the advantage of the relatively cheap power of sale foreclosure, since the courts have held that only a judicial foreclosure of a superior mortgage is effective to cut off Federal tax liens. The alternative is to negotiate with the Internal Revenue representatives to attempt to obtain a waiver of the tax liens for a nominal consideration.

Local taxes also give rise to problems allied to foreclosure in that they involve liquidation of the security. Local land taxes are always ahead of the mortgage liens and if not paid may result in a sale by the governing or taxing authorities. In a so called "in rem" proceeding to enforce taxes such a sale can convey title free of the mortgage, usually with various safeguards permitting the mortgagee or former owner to redeem upon payment of taxes and penalties within a limited time. An owner who lets his taxes get to that point is usually in default of his mortgage anyway, but the investor cannot presume that all is well in the absence of a default; it must make sure that it has notice of any such sale so that it can bid to protect its mortgage interest if necessary or at least redeem before it is too late. In affording this type of protection, the local mortgage banker servicing for the out-of-state investor is invaluable.

Model Act was a good start that never got to first base

Another factor arises from peculiar statutes in some states, such as Ohio, permitting a sale of real property free of any mortgage which is in default in certain judicial proceedings, such as land sale proceedings and partition actions. Here also the mortgage investor must be prepared to bid to protect its interest. Some states, like Louisiana, allow certain charges in favor of representatives of a deceased mortgagor and others to be paid out of the proceeds of the foreclosure sale prior to application to the mortgage indebtedness. In these cases, if a sale is pending, the out-of-state investor must be prepared to put up cash to cover such items, since the mortgage debt cannot be credited for this purpose. There are also numerous legal problems relating to the commencement of foreclosure and later reinstatement of mortgage loans in various jurisdictions. Finally, under some circumstances, foreclosure may be avoided altogether by acceptance of a deed in lieu of foreclosure from a cooperating mortgagor with the prior consent of the insuring or guaranteeing governmental agency.

Attempts at obtaining uniformity in the field of foreclosure have been notably unsuccessful. The Commissioners on Uniform State Laws as early as 1938 drafted a "Model Power of Sale Mortgage Foreclosure Act," which has not yet been adopted by any state. There have been more hopeful signs since the advent of the national market in FHA insured and VA guaranteed mortgages. During this period many states have enacted piecemeal reforms in their foreclosure laws, perhaps because local builders and mortgage bankers have begun to realize that unfavorable foreclosure laws can affect their competitive position in seeking out-of-state capital. We still have a long way to go before many state foreclosure statutes can be considered satisfactory for the mortgage investor from the point of view of time and expense.

It is not uncommon for a Texas foreclosure to cost $50 and be completed in about a month and for an Illinois foreclosure to cost $800 and to take well over a year including redemption. Price and time disadvantages, together with pitfalls such as I have described, to the extent they may occur in any jurisdiction, place such jurisdiction in an unfavorable competitive position in securing out-of-state capital. The remedy lies in the awareness of local real estate interest of this fact so that remedial laws may be enacted.

"DOING BUSINESS"

(Continued from page 21)

The most desirable solution to the "doing business" problems would be the enactment in all states of broad statutes patterned after that presently in effect in Tennessee. Mortgage banking should take the lead in working for the passage of this legislation. Until such time as more favorable and more uniform laws are adopted, however, the observance of the procedures enumerated will go a long way in protecting interstate mortgage investment activities from the "doing business" risks.

Getting Federal Law of Mortgage Foreclosure Deserves Our Study

Mortgage lending may well have come a long way in the past quarter century but one of its greatest problems before the evolution began—outmoded laws which shackle mortgage financing—is still with us and it is just about the same problem it was 25 years ago.

Are present laws and regulations pertaining to mortgage financing realistic?

The question was put to ABA's savings and mortgage conference. Are they? The conference came to no official conclusion but from what was said it was unmistakably clear that just about everywhere outmoded laws, in some way, hinder mortgage financing to a great and unmeasurable degree.

That isn't news to mortgage bankers who have long recognized that cutting through a maze of out-of-date laws which affect the free flow of mortgage funds is one of the prime problems of the industry. But they have also recognized that securing the remedies is no easy task. Getting a good foreclosure law in every state where it is needed has been recognized as a really big job—to some, so formidable that it almost seems impossible of achievement.

How about federal foreclosure legislation? Mr. Redfield thinks it is worthy of continued investigation. Speaking at the ABA meeting, he said:

THE inflationary trend that has led to continually increasing legal costs and the effects of tight money have magnified the adverse effect of costly and time-consuming foreclosure laws. Investors will undoubtedly differ on what constitutes an acceptable minimum cost of foreclosure. To some extent, the minimum standard depends on the degree to which a holder of a mortgage can recover foreclosure expenses from a borrower.

In some cases, a change in the procedure for advertising a foreclosure sale or other detailed requirements would result in lowered costs. In 1938 the commissioners on uniform state laws drafted a Model Power of Sale Mortgage Foreclosure Act, which has not yet been adopted by any state. In general, however, the Model Act, which is supplementary to existing foreclosure procedures, provides for a nonjudicial sale of the property and does not require personal service. It would greatly reduce costs in high-foreclosure-cost states such as Illinois and New York. The recent decision of the United States Supreme Court in Nelson vs. City of New York, and earlier decisions in connection with the Bankruptcy Act and common trust funds, as well as cases under the power-of-sale provisions used in foreclosure statutes in many states, indicate, in my opinion, that the Model Act's notice provisions meet constitutional requirements. In addition, a leading title company* has indicated that, subject to its usual requirements, it is, in principle, prepared to insure title derived through foreclosure conducted under the model act.

One widely adopted theory defends rights of redemption on the ground that farmers should not lose their land because a single crop fails. The Model Act, which suggests a nine-month period for redemption, leaves the time ultimately to be decided by each state. Since the chief reason for the nine-month period is to protect farmers, it should be applicable by statute only to land used primarily for agricultural purposes. In the case of commercial and residential properties, therefore, a period of redemption not to exceed 60 days would improve the competitive position of most states having substantial redemption periods.

There is a basic alternative approach to the problem of burdensome foreclosure laws other than the state-by-state adoption of supplementary foreclosure legislation. This alternative involves the exercise by Congress of its powers under the Commerce Clause of the Federal Constitution by the enactment of a federal foreclosure law covering mortgages bought and sold in interstate commerce. Although Congress has not previously exercised its power in this respect and thus the courts have not had an opportunity to consider the question, a respectable case can be made that the Commerce Clause forms a sufficient legal basis for such legislation.

Despite some doubt as to the constitutionality of proposed federal foreclosure legislation, such an approach involves certain practical difficulties. Although the contemplated federal legislation would provide for foreclosure outside the courts, a federal statute would necessarily involve the imposing of an additional burden of contested foreclosure cases on already crowded federal court calendars. Finally, a federal foreclosure remedy would, to some degree, involve different treatment for interstate and intrastate commerce to the possible disadvantage of the latter, resulting in a substantial question of policy. Such a consequence might, on the other hand, provide a lever by which intrastate lenders would secure equally favorable foreclosure legislation for themselves.

In any event, the possibility of federal foreclosure legislation certainly deserves continued and serious consideration.

▶ QUESTION OF USURY: Recent increases in maximum interest rates on FHA and VA loans and the continuing tight money policy of the government continue to highlight the question of what fees and charges paid by a borrower to a lender might be deemed to be interest for the purposes of determining whether a particular loan transaction is affected by the laws relating to usury.

The chief usury problems arise in the 12 states having a 6 per cent maximum legal interest rate and, in the case of FHA's and VA's, in those of the 12 states in which the local courts have not approved the proration doctrine. Under this doctrine, in determining whether usury exists, the courts permit proration of charges collected at the loan closing over the term of the mortgage.

One solution to the usury problem as to FHA's and VA's, therefore, would be to secure through the use of the declaratory judgment procedure a definitive ruling from the highest state court to the effect that the pro-

*Lawyers Title Insurance Corporation

ration doctrine would apply in the state involved. This solution might be somewhat costly, but in Tennessee the state's mortgage bankers association as a whole has intervened as *amicus curiae* in a declaratory judgment suit involving the legality of the FHA monthly insurance premium. For obvious reasons, the proration doctrine would not dispose of the problem created where the borrower pays a ½ of 1 per cent annually recurring service charge under Section 203(i) of the National Housing Act in addition to the 5¾ per cent interest rate.*

States will have to reappraise laws governing maximum interest rates

In the absence of a declaratory judgment approving the proration doctrine, a statute could solve the problem at least as to mortgages made after the date of its enactment. In Kentucky, for example, the legislature is considering an increase in the maximum legal rate of interest from 6 to 8 per cent. This increase would resolve most usury problems under current money market conditions. An increase in the maximum interest rate, however, involves political considerations.

Virginia House Bill No. 81, which has passed both houses, represents a more politically palatable solution. This Bill provides that no person may claim usury on the basis of charges made in connection with loans insured under the National Housing Act, as amended, or guaranteed by the Veterans Administration. A similar bill is pending before the Delaware legislature.

The ideal solution would, of course, be a combination of the foregoing; namely, a declaratory judgment approving the proration doctrine which would take care of loans already outstanding except for 203(i)'s and a statute like that passed in Virginia which exempts FHA's and VA's from usury limitations. Unlike the declaratory judgment, the statute could probably operate only prospectively. It would, however, to this extent, exempt from usury limitations 203(i)'s which, as we have seen, do not benefit from the operation of the proration doctrine.

*Reference is to the Maryland ruling.

Loan-to-Value Not All Important

Twenty-four states place no statutory limitations on the loan to value ratio, 6 limit it to 60 per cent, 11 authorize loans up to 66⅔ per cent of the appraised value, and the remaining 9 states authorize various combinations ranging to high points of 70 per cent to 85 per cent of the appraised value.

Federal savings and loan associations may loan up to 90 per cent of the appraised value of a home already built to be occupied by the borrower, with full amortization over 25 years.

State-chartered savings and loan associations in 23 states are not subject to any statutory restrictions on the loan to value ratio.

Mutual savings banks in the states where they are important banking factors are governed by statutory loan to value ratios from 60 per cent to 90 per cent.

These various loan to value limitations apply of course, to conventional mortgage loans. It is believed that all jurisdictions exempt loans guaranteed or insured by the Federal Housing Administration or the Veterans Administration from loan to appraised value limitations.

Is it desirable and realistic for competing financial institutions to operate under differing limitations governing loan to value ratios? Largely because of unfair competitive situations which arise, I think it is undesirable and unrealistic for identical types of financial institutions to have differing statutory loan to value ratios governing the granting of conventional mortgage loans.

Depending on the circumstances surrounding a specific loan, I strongly favor an initial equity of not less than 25 per cent, and preferably 33⅓ per cent, in amortized conventional mortgage loans on residential properties acquired by commercial banks. However, from the standpoint of progressive and sound lending, it is my belief that provisions for the complete liquidation of the loan consistent with the borrower's ability to pay, usually by monthly payments covering all charges including taxes and insurance, and the capacity of the lender to take prompt action if delinquency occurs, are of far greater importance than the exact loan to value ratio required at the inception of the conventional loan.

Apart from competitive considerations between identical types of financial institutions, it is not my view that differing loan to value ratio requirements have been an adverse factor of any consequence in the conventional mortgage loan field. The volume and dollar amount of such loans have been large. Generally speaking, the supply has been adequately absorbed. The savings and loan associations, federal and state, acquired the major share at authorized loan to value ratios up to a maximum of 90 per cent. Banks of deposit, both commercial and mutual savings, and insurance companies have also been active in the conventional mortgage loan field, but predominantly on the basis of far more substantial loan to value ratios. Between the several types of lenders, the conventional mortgage demands have been met and, no doubt, will continue to be met. The scale of required loan to value ratios among the various lenders seems adequately broad to meet every reasonable need.

L. A. Jennings,
Deputy Comptroller of the Currency

Wisconsin Joins States Which Cut Their Redemption Periods

But progress is being made in foreclosure legislation. The most recent achievement was in Wisconsin where after a long battle—it's always a battle when something like this is undertaken—a new law was secured.

WISCONSIN, one of those states which has long needed a modern foreclosure law, now has one by action of its legislature. Instead of 12 months as before, the redemption period has been cut to 6 months. Wisconsin was believed to be one of the six states with the most expensive foreclosure procedure and lenders assert it has taken an average of 17½ months to complete a foreclosure, whereas the national average is far below that.

The move which has resulted in the new law in Wisconsin has been the result of more than two and a half years of intensive work. William W. Bunge, chairman of Mortgage Associates, Inc. of Milwaukee, was president of Wisconsin Mortgage Investors Association at the inception of the active campaign to get modern legislation passed and the group was joined by the Wisconsin Bankers Association, the State Savings and Loan League, insurance companies and others.

Under the old law a lender had to wait for the expiration of the 12 month period before he could advertise and sell the property, usually in a sheriff's sale.

The only recourses allowed him were the right to have a receiver appointed during the 12 month redemption period and the right to obtain a deficiency judgment if sale of the home did not cover the amount owed and the foreclosure costs.

As amended, the law now cuts the redemption period in half if the lender and borrower agree to this when the mortgage is originated.

In addition, the amended law specifically limits the six month redemption period to properties of "three acres or less."

In exchange for agreement on the six month redemption period, the lender must waive his right to place a delinquent property in receivership and his right to obtain a deficiency judgment.

Some lenders predicted that a majority of loans in the future would be made on condition that the home buyer agree to the six month redemption period.

This would be especially true where buyers were seeking low down payment, long term loans such as FHA and VA mortgages.

Much Accomplished So Far But Still Much More to Be Done

Make haste slowly, was about the sum and substance of the advice Walter S. Rosenberry, Jr., deputy HHFA administrator, had for the Conference. The same obstacles which have been plaguing the industry in the past are almost as important as they ever were despite some significant achievements here and there—outdated foreclosure laws, unrealistic redemption periods, the bothersome "doing business" barriers. In Mr. Rosenberry's opinion, there is a lot of work to be done and the road ahead stretches far into the future.

CHANGES in mortgage lending, thus far, have been designed essentially to make loans better fitted to the needs of borrowers, and to make their handling easier for investors. Despite the impressive progress made to date, much more remains to be done—all of which could greatly improve the position which mortgage loans will occupy in the investment market.

Realistic laws pertaining to mortgage finance is a matter of crucial importance, not only to lending institutions and consumers, but to the building industry as a whole. Burdensome state laws relating to real estate mortgage and finance are in need of modification. A problem area in this regard is the matter of foreclosure laws which vary from state to state. In some states, there are extra-long property redemption periods; and in some states, the foreclosure procedures are complex, with consequent high expenses. Some states also have laws which define a mortgage lender as "doing business in the state," even though the lender may only hold some mortgages on property in the state which are serviced by a local correspondent. The lack of uniformity of state laws dealing with these matters hampers the smoothness with which capital flows across state lines and, thus, furnishes indirect support for those seeking greater federal participation in the mortgage field.

Traditionally, real estate law has been exclusively local in nature, since it is peculiarly sensitive to local needs. However, there is no doubt that the states can do much to improve the flow of funds into home mortgages. To the extent that states act to remove the burdens that obstruct the flow of mortgage funds across state lines, many areas of the nation will then be able to successfully compete to secure a fair share of mortgage funds available.

Foreclosing institutions generally have to bear expenses pending sale and the expiration of the period of redemption. This requirement necessarily involves delay and expense. Unless adverse state legislation is changed during a period of tight money, there could develop a further dearth of new mortgage investments in those states with unfavorable "doing business," local tax and foreclosure legislation. The development of improved legislation covering "doing business" and foreclosure, which encourages the free flow of capital to all states, is supported by all segments of the housing industry.

Mortgages, because of their prepayment schedules and anticipated prepayments, possess more liquidity than formerly was the case. This liquidity could be immeasurably enhanced by improvement in the mar-

ketability of mortgage loans. Diversity of state laws relating to the investment authority of financing institutions materially affects marketability.

For example, the statutes of a few states provide that under certain conditions 80 per cent home mortgage loans may be made. The statutes in the other states have a statutory limit less than that, and in the majority of states the limit is 66⅔ per cent. A lending institution domiciled in an 80 per cent state cannot sell a maximum mortgage loan to a company domiciled in a 66⅔ per cent state, even though the mortgage was a legal investment when made.

During recent years, there has been a willingness on the part of investors to make higher-ratio loans without FHA insurance or VA guaranties. Past experience on insured and guaranteed mortgages has been sufficient to suggest the probability that the change pattern of mortgage loans affords a substantial basis for expecting a reasonably favorable experience with some types of loan somewhat in excess of 66⅔ of the appraised value without insurance. However, so long as there is a lack of uniformity, it is difficult to believe that much progress can be made in this direction.

To be more acceptable to institutional lenders, mortgages must partake as fully as possible of the characteristics which give bonds and similar prime securities their appeal—simplicity of form, ease of sale, and standard and well established remedies. Mortgages, of course, cannot be fitted into this class completely, but a great deal has been done and yet remains to be done to enhance their marketability, so to speak, in the general investment market.

Obviously, the ideal solution would be a complete overhauling of the mortgage laws of every state and the universal enactment of a uniform code. The breadth and scope of such an effort, however, renders it unattainable within any reasonable time schedule. I believe we could, nevertheless, make progress toward a meaningful solution.

What should we achieve? In essence, we should seek to achieve a situation where in all states the law would permit the lender to make money available abundantly and at reasonable rates; where the borrower would be protected in the enjoyment of his property; and where the lender would be relieved of unnecessary risk and expense connected with enforcement of his lien.

It would not be in the public interest to encourage laws that summarily deprive a man of his home upon either a trivial or a serious default; nor, on the other hand, to encourage laws that beset a lender with burdensome technicalities and unreasonable delays in possessing and liquidating the pledged property. The latter, in a very real sense, tends to work against the borrower to the extent that the lender instinctively will shun those areas where foreclosure is long-drawn-out and expensive.

The universal adoption of a single standard form of security instrument would, of course, be highly desirable. Sometimes redemption is made before sale; sometimes after. In some states there is no provision for redemption at all. Then, too, there are seemingly endless ramifications into the field of appraisement and receivership laws and deficiency judgments. Costs correspondingly run the gamut from nominal to substantial to excessive.

It is hard to explain logically why all this is so. The answer, of course, is that we have 50 state sovereignties, each having its own individual views. Tradition and customs are powerful influences, and that is why this pattern of mortgage loans persists. However, we can make progress only by simplifying and standardizing foreclosure practices to the fullest extent possible. Continued study and effort are warranted.

The safety, liquidity, and favorable yield of a mortgage loan portfolio are now well recognized. Lack of marketability, however, is a drawback which affects their popularity as a medium for investment. Could we not reasonably look forward to the day when a seasoned FHA loan, and other loans with good payment records, would be just as marketable as a prime bond of the same amount?

The next two decades will produce a great demand for housing—a demand that can be met successfully by private enterprise. It goes without saying that only private capital has the capacity to meet the continuing mortgage needs of the American people.

BIG YEAR: A record breaking total of 132,054 manufactured homes were produced by an estimated 400 home manufacturing concerns in the United States in 1959. The 132,054 units produced last year represent a 20 per cent gain over the previous production high of 110,080 houses in 1958. Manufactured home production was 12 per cent of all single family housing started last year in the U. S.

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Suggestions for FHA Changes

From out of the multitude of suggestions and proposals, let's examine some other things in the area of legislation affecting mortgage lending and see what these ideas are. H. A. Yoars, vice president in charge of the mortgage loan and real estate department of The First National City Bank of New York, threw out several suggestions to see what might be the sentiment regarding them. Two concerned FHA:

▸ *Debenture System vs. Cash Payment System:* The debenture system of reimbursing mortgagees in the event of default under an FHA mortgage has been part of the law since 1934. It provides for the issuance of bonds for a term of years (usually 20) at an interest rate established at the time of the endorsement of the loan for insurance. These interest rates have had a spread of from 2½ per cent to 4⅛ per cent over the past several years, the latter being the current debenture rate provided by FHA regulations. In most instances, the rate of interest is unattractive in comparison with other available investments. However, the probability of a mortgage lender being able to convert the bonds to cash at par is remote, if not impossible. On the other hand, since the debenture is a callable security, it has been found that FHA has called debentures within a few years of issuance. Debentures may also be used by the mortgage lender in payment of FHA mortgage insurance premiums, thus affording the bonds some liquidity.

FHA feels that it would be a serious mistake to scrap the debenture system in favor of cash payment. It states the original reason for the debenture system was to afford the agency a means of riding through any extended recession period or a long period of depression. Through the issuance of debentures, the agency would be enabled to defer any large cash outlays and give immediate aid to the housing industry and, at the same time, give the banks an investment (debenture bonds) which they might be very happy to have in such economic periods. The agency feels that by such a system it is in a flexible position to adjust to depression conditions and to bolster the economy.

While we can appreciate FHA's position in this matter, it seems to me that this is a definite deterrent to lend under FHA programs of the project type, such as Sections 207, 213, and 220 multifamily housing. In project mortgage lending under FHA we must contemplate the possibility of taking debentures in the amounts of from $1-million to many millions. Certainly it is not a happy prospect that we might be forced to hold in our investment portfolio a security yielding 4⅛ per cent, particularly under current money market conditions; nor would we find it desirable to hold such a security for a period of possibly 20 years. Recognizing that historically the FHA has redeemed the debentures fairly readily, we cannot, however, rely on such action by FHA taking place prior to maturity of the bonds. It seems to me that some amendatory legislation would be desirable in this area to provide immediate cash payment in the project mortgage field or, as an alternative, a provision that the debentures issued be redeemable after a designated period of time.

▸ *Limitation of 35 Per Cent of Earnings That May Be Used for Expenditure by FHA:* For many years, FHA has been burdened by the lack of a flexible fiscal policy wherein it would be able to operate in periods of maximum and minimum work loads. The 35 per cent limitation exists in the law but has not, for some time, been recognized by the Congressional Appropriations Committees. In fact, these committees have taken a firm stand against its use. The implication in the topic for discussion is that such limitation should be raised. The fact of the matter is that it is not recognized at all. Rather, FHA must go to Congress each year and secure an appropriation to operate the agency for the ensuing year. The agency is particularly hamstrung when it is working under an appropriation secured at a time when the work load is at a normal level and, through changes in the mortgage market or in the housing bill, a tremendous influx of applications comes about. It cannot engage additional people or farm out its work without securing special appropriations.

As a result, much valuable time is lost awaiting FHA response to applications to the consternation of builders, mortgagees, and the potential home owner. The FHA favors a fiscal policy wherein it would be able to handle its operations efficiently during periods of normalcy, extraordinary work load, and below normal work load. It is not likely that a particular percentage, 35 per cent or otherwise, would receive very much support by Congress in view of its past attitude. However, certainly some practical, flexible appropriation policy could be worked out wherein this agency could immediately have available the funds it needs during all cycles of activity —for example, the authorization of an additional appropriation keyed to the number of applications being processed, or the setting up of a reserve fund for use at the discretion of the Commissioner when conditions or operations so warrant.

Easy Lending Era

In recent years the accent, in discussing this area of mortgage lending, has been on further liberalization, higher loan-to-value ratios, etc. Joseph R. Jones, vice president of the Security First National Bank in Los Angeles, says, in effect, that we might well pause for a moment to examine some other aspects.

IT has also been contended by many that every liberalization of real estate loan terms in the past 20 years has acted to inflate the value of real estate. This is because it greatly increases the number of qualified buyers; and this automatically, through the law of supply and demand, will cause an increase of prices. Certainly in the past 20 years we have seen a tremendous liberalization in mortgage loan terms and have also seen price increases from 200 per cent to 300 per cent in various areas. These price increases are not necessarily due entirely to the change in terms upon real estate loans, but it is believed by many economists that the liberalization of credit has contributed mate-

(Continued on page 46)

NO GREATER PROBLEM

(Continued from page 19)

in the Congress on this issue, it is strangely reminiscent of the Populist program of the 1890s. It is not so much a criticism of Treasury debt management policies as it is a criticism of monetary policies as administered by the Federal Reserve. Much of that feeling in Congress arises from lack of understanding of what is admittedly a complex subject.

No one today is an outright advocate of printing press money. But there are many who unwittingly advocate what is in essence much the same thing. These people believe that the Federal Reserve System should return to the discredited and highly inflationary practice of supporting the prices of Government bonds—to keep interest rates down—in the same way that was done during and immediately after World War II. That policy was properly characterized as "an engine of inflation" and was wisely discontinued following the Treasury-Federal Reserve Accord of 1951. Every dollar that the Federal Reserve adds to its portfolio is a high-powered dollar, providing the basis for a $6 growth in the money supply. Such action would spawn the very inflation that ultimately shoots interest rates through the ceiling. Fear of inflation discourages investors from buying bonds; it encourages borrowers to seek credit. Thus, the demand for money rises and the supply is diminished. Interest rates go up.

There is another group in the Congress who would deliberately increase the money supply to lower interest rates and then undertake to control the inflationary effect by the government reestablishing selective controls on the use of credit—a very difficult thing to administer, small in scope, and of doubtful efficacy in peacetime. Once embarked on controls, it is difficult to stop short of a fully controlled economy.

Time after time during the last few months leaders in the field of home financing—in mutual savings banks, commercial banks and savings and loan associations—have come to us with conclusive evidence that more harm is being done to the mortgage market today by large scale Treasury security offerings in the 1-to 5-year area than by selling bonds of longer term.

Mortgage funds come primarily from savings and loan associations, from mutual savings banks, insurance companies, and from savings deposits in the commercial banks—in fact, more than two-thirds of the mortgage funds last year came from these sources. These institutions secure their money for the most part from individuals as they save from current income.

Individuals earn no more than 3 per cent on their savings accounts in commercial banks, since that is the maximum permitted by Federal regulation. They earn about 3½ per cent on the average on their accounts in mutual savings banks. They earn a little more on savings and loan shares, but still probably less than 4 per cent on the national average, even with the recent increases.

Therefore, when the ceiling forces the Treasury to crowd the short-term market and to pay as high as 5 per cent to sell a 4- to 5-year note, as it did in October, this interest rate on a government security becomes a "magic" rate. It becomes front-page news and captures the buying interest of thousands of individuals who usually never think of such investments. Many such buyers are relatively unsophisticated investors who do not understand the characteristics of marketable securities. In many instances, they would be better off to leave their funds with savings institutions or in savings bonds where their money is available on predetermined terms.

The important fact is that much of the money to buy these high-yield marketable securities is raised by drawing savings out of the banks and savings and loan associations. The net result is an injury to the mortgage market substantially greater than the actual withdrawal of savings, since those institutions hesitate to make future commitments to buy mortgages until they can further appraise this continuing drain.

If, on the other hand, the Treasury had not been obliged to do all of its financing within the 5-year straitjacket, some of the pressure could have been taken off the short-term market by doing a modest amount of cash borrowing and by refunding immediate maturities in the area beyond five years. This could have been done, I believe, at less than the rates we have had to pay on 1- to 5-year maturities, and the buyers largely would not have been individuals who drew money out of savings institutions at the expense of the mortgage market. Rather, an important part of the issue would more likely have been placed with public and private pension funds, foundations, and other types of long-term investors who are not major suppliers of funds to the mortgage market.

Furthermore, if the ceiling were removed, the Treasury would have tried to accomplish most of its debt extension both in the intermediate and long-term area through so-called advance refunding. The current flow of savings is not touched by advance refunding since an investor already holding a Government bond which through the lapse of time is shortening, merely exchanges it for a new one of longer maturity. As a result, the volume of longer-term issues for cash, or resulting from the refunding of maturing issues, would be relatively small. It is cash financing or refunding of maturing issues that causes major disturbance of the investment markets.

The home building industry is heavily dependent on the life-blood of credit. I submit that there will be more mortgage credit available with the ceiling off than with it on. In addition, the cost of interim financing should be lower than otherwise. It seems rather obvious, therefore, that housing has much to gain from active support of the President's request for removal of the 4¼ per cent interest rate ceiling.

It is our considered opinion, which is widely shared by people knowledgeable in this field, that the removal of the 4¼ per cent ceiling on new issues of Treasury bonds, by permitting the Treasury to make a rational distribution of the debt across the maturity spectrum would actually work for lower—not higher—interest rates than would otherwise be the case.

Today, the American people, acting through the Congress, must make a decision. They can choose artificially low interest rates created by soft money, and accept the inflation that results as the night follows the day. The other choice, which I trust will be adopted, is to permit flexible interest rates, and thus fight inflation. The latter course, by avoiding booms and busts, will contribute to healthy, sustainable, and rewarding growth.

Condensed from an address at the Group V Savings Banks Association of N. Y.

President's Page

SELLING MORTGAGE LOANS TO TRUSTEED FUNDS

THE recent Mortgage Seminar for Pension Trustees sponsored by House & Home magazine again focused attention on the advantages of mortgage investments for this large potential market. For this, along with the publication's many other activities over the years in promoting improvements in the home financing and home building industries, our hearty congratulations and thanks to Perry Prentice and his progressive and alert staff.



B. B. Bass

As all of you know, MBA has been working for several years seeking ways and means to bring more of these pension funds into the mortgage market. What you might not realize is that many of these funds are buying mortgages now, and in significant volume—much more than most mortgage bankers apparently realize. And when a particular fund starts buying, it becomes a steady and reliable outlet.

True, most trustees have natural and understandable inhibitions against buying mortgages or changing their investment habits. No magic formula or new facility is going to change that. I mention this because there seems to be considerable evidence that too many mortgage bankers are waiting for MBA or someone else to "sell" mortgages as investments to pension funds as a group. Anyone waiting for some D-day when a hoped for magic formula and vehicle is worked out which will "crack" the pension fund market to the point they will be knocking on your doors to take mortgages away from you, might as well relax and forget it.

We now have all the tools we need to sell pension funds. They consist of FHA and VA loans, sound organizations, complete servicing, up-to-date accounting and reporting methods, a little ingenuity in finding logical prospects for your particular company—and good salesmanship.

If you can't sell with these tools, it's doubtful that you could do much better with any different vehicle, such as a bond or debenture secured by, or representing a beneficial interest in, mortgages. True, such a vehicle would greatly expand your possible market by including a large number of potential buyers who cannot now own FHA loans but there is no need to wait. There are many knowledgeable prospects who *can* buy FHA loans today but are not taking advantage of their opportunity.

The yields on FHA loans are high enough now to be very attractive in competition with other fixed income investments. Up-to-date methods of submission, shipping and reporting income, with complete servicing from originations to payoffs *can* make FHA loans, for all practical purposes, comparable with bonds from the standpoint of home office work, costs, and supervision.

The principal reasons why a trusteed fund manager who is not now buying mortgages does not do so, have little to do with the real merits of mortgage investments and the mortgage banking services available to him today. The main problem, therefore, is to get him to seriously consider the matter. Many of them, I am afraid, feel they are doing all right with their present programs and they just don't want to be bothered. There is little you can do with them except to wait until competition nudges them off their contented perch—unless you have a good entree with their principals. A man convinced against his will is of the same opinion still.

We have the product and the tools now. We have many prospective customers that should buy our products. If they will seriously consider the matter, we can meet all their problems and satisfy any doubts today. If they will not do it now, they will later. So be patient, be alert, and continuously ready and working. I predict that trusteed fund investments in mortgages will snowball within a relatively short time.

B B Bass

PRESIDENT

The Right People fo

THERE seems to be little question that the economy of the United States is in for a period of impressive growth during the decade of the Sixties. We are daily confronted with predictions of rising gross national product, a rising standard of living and a score of other projected rises in the usual indices of the state of our economic well being. The discussions rarely question the brightness of the future. Rather, they concern themselves with allied problems—the avenues this growth will take and the imperfect side effects it may cause. The talk is of too many tail fins and not enough funds for schools. We worry about our ability to put down the specter of inflation and to assure a continuation of our present national growth.

There are, of course, many fundamental problems that must be faced and solved by our people if we are to remain strong and productive in the world that lies before us in the next decade. But, in our concern for missiles and health, for middle-income housing and the latest omnibus housing bill, let us not forget the more prosaic problems which we in the mortgage lending field must solve if we and our companies are to play an important part in the housing boom of the next few years. Accepting, as I believe we can, the picture of rising housing starts and generally increased business for the entire mortgage lending industry, I think our industry has one problem on which the future of each company hinges—the effective use of present personnel and the absorption and training of new employees.

To put the demands of our industry in proper perspective, it is necessary to relate it to the demands of the entire economy. This is the only way to understand the real scope of the problem. The recent study by the Department of Labor called "Manpower Challenge of the 1960s" provides some sobering facts for farsighted company management.

During the decade immediately ahead of us—

- Two out of five workers will be 45 years or older.
- The number of workers age 25-34 will increase only moderately.
- There will be fewer workers age 35-44 than in the past decade.
- Nearly half of the growth in the labor force will be under 25.
- There will be a 25 per cent increase in women workers.

Every Company Must Prepare for Changing Manpower Needs

Combine this information with other recent surveys that predict exceptionally high rates of growth for the construction, finance, insurance and real estate sectors, when compared to other industries. One predicts an increase of 36 per cent by 1965 in the present 2½ million jobs in the finance, insurance and real estate fields. This figure is further expected to swell by 80 per cent of present employment in 1975. Jobs in our field will rise at a faster rate than the national average, and, in fact, very few industries will grow at a rate in excess of ours.

The undertaking that lies ahead is apparent. Each company must prepare for new and changing manpower needs. Not only will the typical company have need for more people on the total payroll, but companies will have critical shortages in the *middle* management group, age 25-44, and particularly in the 35-44 age range. The need for personnel is, at the same time, quantitative and qualitative.

To treat the simpler of the two aspects first, let's examine the quantity side of the dilemma. If each company grows only at the same rate as our entire industry, it will be required to add by 1965 one employee for each three presently on the staff. By 1975, there will have to be four new employees for each five presently at work. In itself, this does not seem an impossible task and management should be able to cope with this demand. But there are certain peculiarities in the type of people likely to fill these employment gaps—peculiarities that will effect the recruiting techniques and the techniques by which these people will be used in the activities of a particular company. Since workers under 25 years of age will account for nearly half of the labor force growth, this group will constitute the best bet for our industry to meet its extraordinary requirements. As a matter of fact, this is the only real answer to providing the bulk of the people for the estimated 900,000 new jobs that we will have to fill by 1965.

Young workers will, of course, be inexperienced. Accordingly, the employer will have to provide more and better job training, and a higher degree of supervision will be required to counsel and guide these young people in what may well be their

le for the Right Jobs

first job experience. Employers can expect that these younger workers will have more education, when compared with the similar age group of the 1950s, but they should also prepare for greater turnover, an unfortunate corollary of reliance on younger people.

Women will be a secondary, but still important, source of workers. One out of every three workers will be a woman—the increase due largely to greater interest in working by women whose children are either in school or past school age. These older women can certainly play a significant part in the growth of our industry, but the employer with pressing personnel needs may have to adjust his working schedule to attract some of these women, who, because of home responsibilities will be seeking part-time work.

Finally, a word that may sound as if it came from a social worker's casebook, but which must be considered by an employer with his back to the wall because of manpower demands. He must decide if he can afford the luxury of discriminatory personnel practices, especially when the continuance of such practices will signal a gradual disintegration in the quality of his company's work performance. There is a limit to the number of "socially acceptable" workers available in the market, and these will be scarcer in the decade ahead, under the pressure of increased need for workers. An employer with a realistic attitude toward the quality of work standards in his shop, will not exclude an able person because of race, sex, age or physical handicap.

It may be a far more important problem sooner than most of us realize. Population is soaring, more jobs are available with more people to fill them. But it's not as simple as that. Manpower won't be available in every age bracket to meet every specific demand. The statistics tell an irrefutable story: the Sixties are likely to bring with them problems of personnel of a kind and character not heretofore seen. And it is just as important for the mortgage industry as any other. Says Mr. Morrison: "Investors are mightily concerned with their correspondents' grip on the future. Competitors realize that improper provision for future management will increase their own chances to achieve supremacy in any originating area, by merger or otherwise. Service, which is simply a matter of sufficient trained personnel, can deteriorate in direct relation to the deterioration in the quality of personnel, striking at the very heart of the mortgage origination process."

By **FRED B. MORRISON, JR.**

City Mortgages,
Metropolitan Life Insurance Company, New York



These then are the guidelines to be used in meeting the overall needs for personnel in the coming period of growth in our industry. The people are certainly available. They are not, however, of the same type that our industry has grown used to over the years. Alert management will adjust to this new labor market and get on with the main business of growing with our growing industry. On the other hand, you can be sure that an employer who looks for the employees he will so desperately need, with the expectation that his prospects will be as they were in the 50s, will suffer a keen disappointment. And his company will suffer accordingly.

The second, and to my mind more serious, aspect of the shifts in the makeup of our labor force is the scarcity of people in the middle management level. This is the qualitative employment problem our industry faces. And to the degree that each company succeeds in resolving this critical problem, it will provide the kind of management that will perpetuate the company beyond the era of present management control. A failure of top management to provide their successors in the decade of the Sixties will, more surely than any other factor, abort the corporate life of the company in the Seventies.

Companies Which Appreciate the Problem Will Fare Best

Between 1960 and 1970, total employment in the United States will rise by about 20 per cent. Among the major industries, construction, finance, insurance and real estate, employment will grow much faster than any of the others. Their growth is expected to be at a rate approaching twice the overall rise in total employment. Like all industry, ours will feel the effects of glaring shortages in the age levels 25 to 34 and 35 to 44. As serious a problem as this is, of itself, it is compounded in our industry by sharply increasing needs in the face of dwindling nationwide manpower supplies at these age levels.

Only by the most ingenious and continuing effort can these special needs be met. Many companies, who do not face the challenge squarely, will fail to achieve their minimum personnel requirements. For those companies, lack of skilled management people will be the major limiting factor in their growth and may well precipitate other, serious side effects.

Really important management succession problems have not been a characteristic of our industry. Single entrepreneurs have grown rapidly in a maturing industry and have benefited from a favorable labor situation. Any expansion has been made easy by a ready supply of workers. Now, just as the long sought for scope and stature of the industry becomes a reality, the ability to provide competent management for the future is in jeopardy —in jeopardy at a time when management succession is a critical factor, as never before, in the business reputation of a company. Investors are mightily concerned with their correspondents' grip on the future. Competitors realize that improper provision for future management will increase their own chances to achieve supremacy in any originating area by merger or otherwise. Service, which is simply a matter of sufficient, trained personnel, can deteriorate in direct relation to a deterioration in the quality of personnel, striking at the very heart of the mortgage origination process. The effects of middle management shortages in the Sixties and the resultant top management shortage in the Seventies can have profound effects on the future development of our industry. You can be sure that the companies which grasp the importance of this challenge and respond accordingly will be the predominant companies of the decade beyond the present one.

What specific steps will be most effective in the task of assembling a sufficient number of middle mangers? It is certainly true that employees will be first attracted to, and tend to stay with, companies that offer a satisfactory package of competitive salaries and fringe benefits, an optimistic picture of future company growth and the kind of supervision that leads to individual satisfaction and job progress. But these are general practices and only generally applicable to the special problem which we are examining. Without any intention of providing an exhaustive treatment of recruiting and personnel retention techniques, I would like to emphasize a couple of points that seem particularly important to me in meeting middle management needs.

The key part of the job is simply to take stock of your present management personnel. The chances are that the company is well staffed at the top management level, and barring an extraordinary set of circumstances, leadership is assured through the next ten years. The typical trouble point occurs in the next rung down the management ladder. Here the closest examination of available talent should be undertaken. Is there a large enough group of young men to supply the company with continuing, effective management? The answer



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must be supplied on a harsh and realistic basis, since the question is not one of bodies, but rather of talent. People with future potential must be identified and measured against the requirements of the future. If the number is insufficient, present staff that measure up should be preserved, and immediate steps taken to attract young men of ability to strengthen this middle management group. Aggressive top management will move as rapidly as proper candidates can be found, because they realize that the recruiting problem will be progressively harder to resolve as we move further into the decade.

Loss of Top Management Personnel A Luxury No One Can Afford

As simple as this sounds, a realistic appraisal of the potential of present personnel and the undertaking of a program to close the management gaps is the one job that most companies can find a variety of reasons to postpone. Like the execution of a last will and testament, management succession is an undertaking which can be indefinitely postponed. Yet no factor can deal as serious a blow to any company as the loss of top management skills. Replacements for major management posts are the very life blood of any company and the only way to assure its continued existence.

The second suggestion bears on the means of retaining young men of ability. In this connection it is important to remember that only a preliminary judgment of ability can be made at this early stage. Somewhere in the group, we can expect to find the one or two or three key people that will carry the major responsibilities of the company in the future. But which man in the group is a really top flight individual can only be determined by observation over a longer period and while he is subjected to the stresses of operating routine. The failure to expose middle management to really critical experience is the reason major mistakes in selection are made.

Top management is skilled and productive in its functions and there is an understandable reluctance to assign some of their duties to subordinates. Particularly there is a reluctance to assign any of the key functions of company operation. The result is the creation of a stand-by brigade whose first test comes when the stakes are too high. Personnel judgments are made and promotions are ordered, based on an insufficient knowledge of the individual's capabilities.

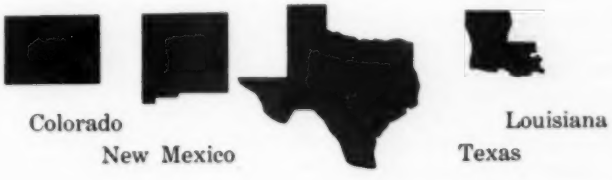
To my mind the most important means of retaining able juniors is to allow them to stand on their own feet as rapidly, and as much as possible. It ranks above salary, title and many other single factors, because it provides the one factor that can change all the others. It can provide the opportunity to prove one's self and to command the benefits that go with greater responsibility. From the top management viewpoint, it provides the best possible test of the individuals who are competing for the top jobs and makes the final selection a much easier and more accurate task.

In a real sense, a successful manager no sooner achieves a higher position than he begins to parcel his responsibilities out to his younger associates. This is, for many individuals, an unnatural thing to do, despite its obvious merit in terms of management succession. To assure that this important action will be undertaken, it will be necessary for the highest level of management to implement the program by example and by direction. Once instituted, there is every reason to believe it will be as important a step as will ever be taken to assure continuity of management skill.

The entire problem of adequate and carefully trained personnel will require the most careful attention and unremitting effort by today's industry leaders. If their work in this area is properly done, they can be assured that their companies will be on hand to play a part in the decade of the Seventies. If they fail, there is no reason to believe that their companies will be in the picture at all.

FAMILY PREFERENCE: Of the $314,000,000,000 ordinary life insurance in force in the United States today, an estimated $285,000,000,000 is under permanent or cash value policies, the Institute of Life Insurance reports. Included in these policies is an estimated $30,000,000,000 of added short-term benefits. The aggregate cash values built up in these permanent policies were in the neighborhood of $50,000,000,000 at the start of this year.

The use of permanent, cash-value type policies has become an integral part of family life insurance planning, the Institute says. This has been extended in recent years to the point that even where term insurance is used for temporary added protection for family income, mortgage repayment or similar family financial needs, it has been set up as a part of a permanent policy in most cases.



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SERVICING TIPS from the TOP

About mortgage loan servicing
Conducted by W. W. Dwire
Chairman, Servicing Committee



Detroit Faces a Problem and Solves It

It was a problem all right, one that touched every mortgage banking firm in the city. It had to do with escrow analysis, regarding which the average borrower's knowledge is a good deal less than complete. There are all sorts of ways to skin a cat. Here's the story of one way—a very modern way—a hard task was accomplished in a quick and efficient manner.

JUST the suggestion of an escrow analysis can often create a lot of confusion in a mortgage company office—and for home owners it can create something a great deal more serious. An escrow analysis, and the escrow account, aren't readily understood and when there is misunderstanding about anything, a great deal of confusion can develop.

Detroit is now a city where—it is probably safe to say—borrowers are more conscious of what an escrow analysis is than possibly in any other place. And thereby hangs a tale, a tale of how more than 200,000 homeowners in the area had it explained to them why their monthly mortgage payments were considerably higher. It also reflects how a local mortgage association, once it sees a problem affecting the industry in its area, can organize its efforts and do an effective job of explaining what's what and how.

In most areas of the country, an escrow analysis is usually handled only when trouble develops. Experience indicates that most mortgage companies deal with the problem of escrow analysis only when a mortgagor complains, a loan is being paid off or an investor's auditor discovers a red balance. A few companies analyze escrow accounts on a weekly or monthly basis, in order to keep this general problem under control.

This, however, was not the case in Detroit, because of certain factors present in this area. Michigan has, I think, the highest percentage of homeowners of any state, has more $200 million plus mortgage firms than any other city, and, finally, is the only city where all mortgage companies are operating on tabulating or electronic equipment. Detroit is not only the home of automation in the auto industry, but probably is the leader in electronics and automation in mortgage banking.

With so many large mortgage companies operating with electronic equipment, it was only natural that this toughest of all mortgage problems —escrow analysis—would be automated. As a result, mortgage portfolios of 25,000 to 35,000 loans are now completely and accurately analyzed within a matter of hours, by any one company. One result of this tremendous speed and accuracy, however, is that the problem of escrow analysis instead of being haphazardly handled in small operations over a period of several months or even years, is now processed in one fell swoop by an electronic computer within a few hours. Thus, all mortgagors can receive the escrow information on the same day.

Last year when, for the first time, a few large companies analyzed in this manner, it was discovered that the public at large was not ready for such a complete shock. Even worse, however, was the realization that homeowners do not understand escrow accounts or escrow analysis. All of us in the business were aware of this fact, but never actually realized its seriousness, until literally thousands began complaining at once.

In 1959, when two of the largest

By **EDWARD J. DeYOUNG**
Vice President and Controller, First Federal Savings and Loan Association, Detroit

mortgage firms in Detroit completely analyzed and raised monthly mortgage payments at the same time, the situation became acute. Homeowners by the thousands telephoned, wrote letters, and appeared in person to complain and ask why. In addition, many city officials and newspapers picked up the hue and cry of the mortgagors and, in certain instances, actually accused our members of wrong doing. None of these complaints, of course, was true; but through electronic speed, the hit-and-miss methods of manual bookkeeping systems over several past years were all brought up-to-date at once. It would be an understatement to say that this electronic shock treatment was too much for the general public!

After last year's turmoil had subsided, James Barnes, then president of the Detroit MBA, formed a Committee and authorized the expenditure of certain MBA funds to study this problem. The Committee consisted of W. W. Dwire, Citizens Mortgage Corporation; Sidney Kaye, Advance Mortgage Corporation; William Stepek, The Detroit Bank and Trust Company; Harold Brown, James T. Barnes and Company, and the writer. With Mr. Dwire as chairman, the committee began a year-long study in order to prevent another "riot" by mortgagors at the time of this year's escrow analysis. (In Detroit, accounts are analyzed and payments adjusted in January of each year). After analyzing the problem, the Committee decided that the public must be educated regarding escrow accounts and escrow analysis because it is completely baffled by this phase of our business and, in addition, has built up some erroneous ideas about it.

Initial study indicated that we could never completely explain this subject to the public, when many lawyers and accountants in the mortgage industry don't even comprehend escrow analysis. Consequently, we set out to clear up only five important points that seem to cause the most misunderstanding and trouble between mortgagee and mortgagor:

- Principal and interest remain constant during the life of a mortgage.
- Only the escrow portion of a total monthly mortgage payment increases.
- Homeowners themselves, through their purchases of new hazard insurance policies and by voting for bond issues and other taxes, increase their own monthly payments.
- We do not "make money" by holding and investing escrow funds.
- The entire system of escrow accounts and escrow analysis is a very valuable and costly service to the homeowners, which we provide free of charge.

With these objectives in mind, the Committee began work with the Karl Behr Advertising Agency, Inc. Together, we worked out a two-part program.* The first consisted of arranging a luncheon for all members

*Here are some of the points emphasized in the press release:

The increasing cost of local government will show up this month in notices of higher monthly mortgage payments, to be mailed soon to an estimated 212,000 homeowners in the greater Detroit area. This is indicated by a cross-section survey of accounts of several thousand typical mortgage customers by members of the Detroit Mortgage Bankers Association, reports James T. Barnes, immediate past president of the Association.

"Payments will go up in the case of about 53 per cent of the 400,000 home-owners whose mortgages are held or serviced by members of the Association. These increases are due entirely to higher tax and insurance bills," says Barnes.

"We all realize," says Barnes, "That this is unpleasant news to people who can find many places to put each dollar of income. But it is a situation that is entirely out of the control of our members, since we have no way of controlling higher property assessments, special assessments and higher tax rates that inevitably follow higher costs of local government."

Most mortgages requiring monthly escrow deposits for taxes and insurance, whether they are VA, FHA or conventional, carry a provision which substantially reads as follows:

"In addition to a fixed monthly principal and interest requirement, which will fully repay the obligation over a specified term of years, the borrower must also pay each month a sum equal to one-twelfth of the taxes next due; an amount that will pay the hazard insurance premium next due; and on FHA loans an amount that will pay the next-due mortgage insurance premium. Such amounts shall all be estimated by the lender, or its servicer, based on best available information."

"The 'escrow' account can be compared to the monthly budgeting, by the prudent family, to accumulate money for large expenditures to come. When such costs go up, more must be budgeted monthly. The monthly amounts paid in by home owners for taxes and insurance are a legal part of the mortgage—set up for the mutual protection of the borrower and the lender in making certain that taxes are paid when due."

To explain "escrow," which is an unfamiliar word to many home-owners, Barnes points out that the monthly mortgage payment is made up of two parts:

1. Principal and interest—this portion of the monthly payment remains unchanged during the life of the mortgage.
2. Escrow—this portion of the monthly mortgage payment is set aside and used for the payment of taxes, insurance, special assessments, etc. It necessarily changes when the cost of these items changes.

"Largest item in the increasing cost of local government is the cost of school construction and operation, which runs into tens of millions of dollars each year in the metropolitan Detroit area," Barnes reports. "This is particularly true in the newer communities, where rapid increases in population have created an urgent need for more classrooms.

"In a number of communities, property assessments of large industrial and commercial properties have been substantially reduced. To maintain public services, the tax revenue lost in this way must then be passed on to the home-owners of the community, either in the form of higher tax rates or higher property assessments.

"To show that tax increases are not by any means confined to the Detroit area, it may be interesting to note, in the December 1959 issue of a national magazine, the report that the state and local taxing apparatus throughout the country is producing 2.3 times as much tax revenue as it did just 10 years ago. Much of the increase referred to is, of course, in property taxes.

"Increases in monthly escrow deposits are also, to a certain extent, the result of increased hazard insurance premiums. Insurance premiums increase as the result of an increase in rates, approved by the state insurance commissioner, or from the purchase of greater insurance coverage by individual home owners, or both. 'Home owners' policies have become popular—and these policies, because of their broader coverage, are much more expensive than policies which include only the fire and extended coverage required by the mortgage agreement."

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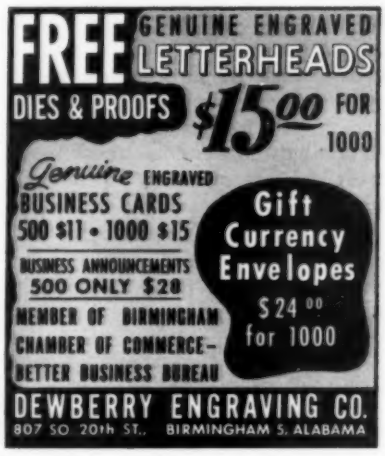
of the press, radio and television. Representatives of all major radio and TV stations and newspapers were present, along with those from 60 suburban newspapers. A prepared press release was given to all those present, and our Committee members conducted a session to answer any questions that this group might have. Our thinking behind this luncheon was to obtain maximum coverage through press, radio and TV. Thanks mainly to the Karl Behr Agency, our plan was more successful than any of us had anticipated. We received front page headlines and coverage in over 50 newspapers, and the news was featured on all radio and TV newscasts as major news of the day.

The second part of our program, was publication of a colorful pamphlet which all Detroit MBA members purchased and mailed to their respective mortgagors on approximately the same date. In this manner, all homeowners within the space of two or three days, read about this subject in the newspapers, witnessed it on TV, heard it on radio and received a special mailing from their own mortgage company.

Almost all companies then proceeded with this year's program of escrow analysis and payment changes. The results were so successful that most of us still cannot believe that what happened a year ago was not actually a nightmare. The largest firms in the city handled all complaints and inquiries within two or three days in contrast to last year when the complaints kept pouring in for weeks and even months following the escrow analysis. Even the relatively few calls that were received contained no anger or suspicion as was the case in previous years.

For the entire program, including the cost of the press luncheon and the advertising agency fee, the Detroit MBA spent less than $1,600 (each member purchased their own pamphlets for the mailing). From this small expenditure we received thousands of dollars of front page newspaper coverage and radio and TV time. Likewise, our individual members saved thousands of dollars in telephone calls, correspondence and overtime pay. Finally, of course, the amount of misunderstanding with mortgagors that was clarified, and the goodwill that was created for our industry, cannot be measured in dollars and cents.

Detroit has taken the lead in solving a problem that is still feared in many other parts of the country.





KEEP TRACK of 5000 LOANS

as easily as one

Sound tough? Well, this company devised a system in its servicing department which, it says, enabled them to do just that. It's easy to see that if you can give a quick answer regarding the status of an account you have saved a lot of time, money and effort. That was the goal and the firm says it was achieved.

By DUANE R. CARR
Mortgage Officer
Frederick W. Berens, Inc., Washington, D. C.

A SIMPLIFIED system of keeping records on loan processing has eliminated a potential administrative bottleneck, and made it as easy for the Berens organization to keep track of 5000 cases as to handle one.

Our new record is based on a visible-index card file containing all pertinent information on every step in the processing of a VA or FHA loan. It gives us more information in accessible form, speeds processing by cutting down on searching for files, and makes handling inquiries easier and faster.

We have found the advantage of quick answers to loan applicants' inquiries to be the most important result of the changed procedures. Our business involves many different people—buyers, brokers, builders, agents, investors, etc. This means that it takes time to complete the processing of a loan.

This time factor, as every mortgage banker knows, generates a lot of telephone calls. In the case of a family buying a new home, the situation is often fraught with emotion. If we keep the caller on the phone too long, waiting for us to find the answers, his or her imagination begins to run wild. Then, if the caller is a women, she usually calls her husband and urges him to telephone the builder. The builder calls us. Then the message travels back through the same tortuous path.

But if we can give a quick, complete response to the *first* call, the buyer invariably accepts it and relaxes. In our case, we have insured these quick answers.

The girl who receives the telephone inquiries has in front of her the files which show the exact status of each case. In five seconds she can tell the caller precisely what has happened, what we are waiting for, etc. Since we installed this system early in 1959, we have found people not only pleased but also somewhat surprised by the speed with which an answer is given.

In the past we kept a record sheet showing processing details in the file on each case, and posted major steps in a register book. The book provided space only for dates specific action was taken, and did not provide a running record of the case. The check-sheet in the file was generally difficult to locate, for the file might be on any of two dozen different desks around the office.

An effective system, it seemed, would create a single record which would remain in one accessible spot and contain full information. We set up such a system, using Remington Rand Aristocrat Kardex files, with a 10 x 6¾-inch card for each case in process.

This card provides space for dated notations on about 30 different points in the processing of a loan application, plus spaces for special reports, comments, credit information and so on. It also includes the buyer's name, case number, date of application, property description, price, type of loan and FHA or VA number.

Along the lower visible edge of the card we use a colored Graph-A-Matic signal which slides from left to right to flag the progress of the case, through sixteen steps to final settlement. A glance down the file shows instantly the status of accounts in each slide of the file. At the left we place individual signals of three different colors over a month scale to show FHA or VA expirations, or projected settlement date.

The Kardex records are filed by lot and block for each subdivision, with a lead card in each section listing all lots and blocks with buyers' names. A cross-index file on the Kardex desk is set up by purchaser's name, providing instant reference to the proper subdivision.

When we obtain a new builder commitment, we immediately set up a series of cards representing each lot and block. As a buyer applies for a mortgage loan, the name, price, terms, type of loan and preliminary review information are written into the proper card. The card is then filed under the subdivision lead card according to date of application. In this way we know which cases have been longest in processing.

The girl who maintains this file receives all incoming mail each morning, and posts all pertinent data received on every case, thus insuring a complete record. She has at her fingertips all information which may be needed normally by anyone in our organization, or by a calling buyer. The only time the case file is required is to complete an actual processing

step, or to insert a document received.

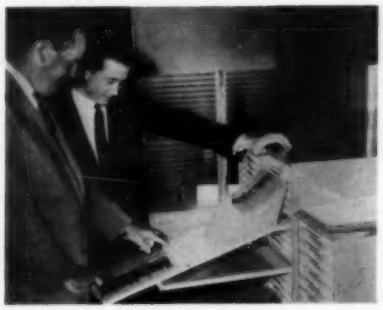
When the processing has been completed, the card is withdrawn from the file (for the first time), and sent to the shipping department to await receipt of investor's payment. After this, the cards are placed in a permanent file and the case is closed.

This new control has given us many advantages besides the matter of handling inquiries. Other benefits include:

- More information in our control record than was ever available in one spot before, enabling us to handle more cases with fewer people.
- Ability to better project and schedule cases over a period of time, permitting us to anticipate our need for funds.
- Elimination of the need for a complete review of a file—often requiring half an hour's reading—to locate the roots of any problems which arise.
- Our insurance department has a point of quick reference to determine when a loan is approved, and contact the buyer quickly about insurance.
- Faster processing, because we now know what has happened. In the past, we might have had the document needed to move on with a case, and yet not know it for several days.
- All loan files are now alphabetical, making location easier, with the Kardex record helping us to spot the proper subdivision when necessary.
- The clerk who handles inquiries can perform additional duties, such as correspondence and special reports, whereas her entire time used to be taken up finding information and answering calls.
- We can spot in advance cases which are approaching the expiration of a commitment. Given time and a full report, investors will usually agree to an extension. We can now give them the report much earlier.
- Elimination of errors which used to occur under the pressure of working close to an expiration deadline.
- Perhaps most important, all members of our staff are able to devote more time and effort to constructive effort toward processing and settling of cases, rather than wasting time in looking for information.

This is the kind of personal service we have endeavored to render since





Telephone inquiries from home buyers are handled promptly in the new Berens Kardex record system. The author (right) and D. O. Nichols, senior vice president at Frederick W. Berens Inc. check Kardex record to determine exact status of a loan application. This file is the heart of the processing department, providing all information needed except for the actual processing steps.

Frederick W. Berens Inc. was founded in 1934 and placed one of the nation's first FHA mortgages. But, as our volume increased, to the present level of about 2000 cases in process, we found it increasingly difficult to keep a firm control of the processing—which is the natural requisite to answering inquiries properly.

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MANAGEMENT *and the* MORTGAGE BANKER

Over the years MBA's educational program has been expanded to include more and more training in more and more fields. The general area of management, however, is one that is being well covered by other specialized organizations. These courses are open to MBA member firms and Mr. Kerwood tells how they can be utilized.

EVEN in an industry as specialized as mortgage banking, individual companies must have experts not only in finance and associated functions, but also in the very fundamental of business—management. While MBA does offer the best in professional training for member company personnel, the need should not be overlooked for advancing efficiencies in operation common to all types of business. Toward this end, we should direct attention to the training of all personnel. For those in management, there is an extensive and comprehensive program, of commendably high calibre, available through the American Management Association.

According to this Association, more than 16,000 executives from all segments of business will participate during 1960 in their extensive seminar program. Quoting from their announcement, "Each will aim at improving his own—and his company's —performance in a particular area of management." Seminars "offer a solid background of operating fundamentals . . . an up-to-the minute briefing on new developments in a selected field . . . or knowledge-in-depth of specific management jobs and responsibilities. They afford a unique opportunity for profitable exchanges of ideas and know-how with other experienced executives." To attain these objectives, the AMA program operates principally through its ten Divisions, which "correspond to major areas of management responsibility"

FINANCE—Including such typical workshop and orientation seminars as Administering the Company's Accounting Function (June 6-8, New York), Functions and Organization of the Chief Financial Executive's Job (June 6-8, New York), Organization and Administration of the Controller's Job (May 16-18, Chicago), Reporting Financial Data to Top Management (May 23-25, New York), Improving Your Company's Relations With the Professional Financial Community (May 16-18, Chicago), Effective Utilization of Machine Accounting Systems (May 16-18, New York), Appraising and Financing Corporate Mergers and Acquisitions (May 16-18, Chicago), Financial Planning and Control as a Tool for Top Management (May 16-18, New York), The Financial Executive's Job In a Small Company (May 16-18, Chicago), Organization and Administration of the Treasurer's Job (May 16-18, Chicago), Investor Relations (May 16-18, San Francisco) and many, many others too numerous to detail in any brief review of course offerings.

GENERAL MANAGEMENT—Including such courses as Appraising the Company and Its Performance, Managing By Decentralization, The Job of the Department Head (June 8-10, New York), Modernizing the Executive Compensation Program (May 9-11, New York), The Executive Vice President's Seminar (June 8-10, New York), Administration of the Company's Public Relations Program (June 15-17, New York), Managing Corporate Real Estate (June 15-17, New York), The Job of the Corporation Secretary, The Chief Executive's Job In the Smaller Company (May 9-11, New York), Short and Long-Range Total Planning, and many, many others.

INSURANCE—Including seminars on Developing An Employee Benefit Package (May 23-25, New York), Modernizing the Group Insurance Plan (June 6-8, New York), and others.

INTERNATIONAL MANAGEMENT

MANUFACTURING

MARKETING—Including such studies as Handling the Branch Sales

By **LEWIS O. KERWOOD**

Director, MBA Research and Education



Force and Office (May 9-11, New York; May 18-20, Chicago; June 15-17, Toronto), Direction and Control of the Field Sales Force, Effective Methods of Teaching Salesmanship to Salesmen, Developing Yardsticks for Measuring the Performance of Salesmen, etc.

OFFICE MANAGEMENT—Including, but not limited to, such courses as Organization and Management of the Office and Administrative Engineering Function, Countdown for New Data Processing Installations and Applications, Organization and Management of Punched Card Operations, Establishing and Using Clerical Work Measurement and Standards, Office Budgeting and Cost Control, Organization and Management of Branch Office Operations, Effective Supervision of Office Personnel, Improving the Administration and Procedures of the Payroll Function, Organization and Management of the Records Control Function, Preparation and Use of Company Organization and Policy Manuals, Organization and Management of an Effective Work Simplification Program, Principles, Techniques and Skills in Office Administration, etc.

PACKAGING

PERSONNEL—Including Selecting, Interviewing and Orienting the New Employee, Job Evaluation, Installation of Managerial Standards of Performance, The Management Development Program: Installation and Operation, Personnel Policies and Problems in Mergers and Acquisitions, Evaluating the Effectiveness of Personnel Administration, Personnel Record Keeping, Improving Supervisory Training Methods, Training and Integration of College Graduates and Other Trainees, Administering A Sound Wage and Salary Program, Recruiting Key Executives, Executive Appraisal, Personnel Principles and Practices, Selection and Orientation of Supervisory Personnel, and others.

RESEARCH AND DEVELOPMENT

In addition, the AMA's specific Management Course provides practical instruction and has been "designed with the needs of today's busy executive in mind." The Course "provides a solid foundation for more competent performance at the higher management levels, in every type of activity, and in every branch of business." Specifically, the Course deals in its entirety with principles, skills and tools of management; planning and organizing; reviewing and improving performance; and management in action.

As advance courses, the Association offers a Management Course for Presidents, Presidents' Round Tables, and Management In Action For Management Course Graduates.

The listings above are only a few of the several hundred 2-day to 4-week seminars, workshops, clinics, and courses sponsored by the AMA each year for the benefit of persons in all phases of Management responsibility from all segments of business and industry. Because of the extent of offerings, because costs, locations, dates, etc. vary so greatly, and because courses are repeated frequently in all sections of the country, no attempt can be made here to detail all the specific information. All that is expected here is to bring to the attention of MBA member companies the fact that such training is available, with the suggestion that members write directly to the AMERICAN MANAGEMENT ASSOCIATION, INC., 1515 BROADWAY, NEW YORK 36, N. Y. requesting program copies and detailed information in those areas of particular interest. Membership in AMA is not required for registration. The AMA is a nonprofit organization, with its sole interest being "the practical solution of current business problems and the development of the science of management."

Don't minimize the opportunity to provide this excellent training for your management personnel—there's nothing but "growth" ahead.

MEN TO HIRE

As a part of MBA's student placement program in its overall educational effort, the Association regularly makes available to its members candidates which are, or soon will be, available for employment. All are interested in careers in mortgage banking and all have been carefully screened before their qualifications are brought to your attention. The mortgage man who is looking ahead realizes that personnel will be his biggest problem and responsibility although, at times, other factors of the business certainly do seem of greater importance *(See Fred Morrison's article in this issue)*. At the moment, these candidates are offered for your consideration. To secure more details, address the candidates by the box numbers shown and mail to the Association.

Candidate No. 95—Box 627. Age 24, single, available June 1960. To receive B.A. degree University of Notre Dame, June. Attended University of Arizona, 1955-56. Member Student Law Association, Economic Round Table at Notre Dame. Part-time work as clerk, and salesman. U. S. Army Platoon Sergeant. College instructor comments—" . . . honest and dependable — happy to recommend him for a position of trust and responsibility."

Candidate No. 96—Box 628. Age 21, single, available September 1960. To receive B.A. degree in Finance, University of Notre Dame, June. Member American Society of Mechanical Engineers, Finance Club and Commerce Forum. Summer and part-time work as Testing Engineer and grader in finance courses. College instructor comments—" . . . a young man of the highest integrity and veracity. He is very dependable, works well with others, and is receptive to criticisms or suggestions."

Candidate No. 98—Box 630. Age 22, single, available January 1960. To receive B.A. degree University of Notre Dame, January. Varsity fencing team and Economic Round Table at Notre Dame. Staff of school newspaper and yearbook, Radio Club, and athletics at St. Edwards High School, Lakewood, Ohio. Part-time and summer work as salesman and construction worker. College instructor comments—" . . . a personable fellow—I feel that he will work well in any task assigned."

▶ FHA BORROWERS: The typical FHA home buyer is between 33 and 34 years old. An analysis of home mortgages insured by FHA in the first nine months of 1959 showed that the median age of new-home buyers was 33 years and that of existing-home buyers 33.9 years.

Previous studies showed the ages of typical home buyers to be somewhat greater than in 1959. In the pre-war year 1939 the typical ages of new- and existing home buyers were 36.2 years and 40 years respectively.

The decline from 40 in 1939 to 36.1 in 1947 in the typical age of existing-home buyers is primarily attributable to the relatively higher loan-value ratios permitted at that time for homes initially built under FHA inspection which by 1947 were being resold as existing homes.

COMING UP IN MBA

Servicing Clinic in Minneapolis

MBA's second Mortgage Servicing Clinic for 1960 will be at Hotel Leamington, Minneapolis, May 19 and 20 and in view of the highly successful experience with the Washington Clinic, another record meeting in the servicing side is expected. The Washington meeting was the largest servicing clinic ever held and more than 20 per cent of those attending were from investors' offices. Just as mortgage originators and investors find other MBA meetings ideal occasions for contact, the Servicing Clinics are doing the same thing for administrative personnel in both sides of the mortgage transaction. A total of five sessions in Minneapolis will be devoted to investor problems, two on home office problems and procedures and three on investor-servicer relations.

Among the speakers will be Dr. Gordon L. Lippitt, of the National Education Association, Washington, D. C., who spoke in Washington. He will talk on "Developing Teamwork —The Executive's Job." MBA President B. B. Bass will speak on "Top Management's Role in Loan Administration."

Among the round table seminars topics will be collections and delinquencies, VA and FHA delinquencies, foreclosure and claim procedures, current accounting and remittance procedures, escrow administration, administrative responsibilities—loan servicing supervision, servicing tips and new ideas, insurance administration, construction loans and loans-in-process accounting procedures.

Among the speakers to address the Minneapolis Clinic are Mrs. Lorraine R. Philips, treasurer, Mobile Mortgage Corporation, Mobile, Ala.; Frank A. Rees, assistant treasurer, John Hancock Mutual Life Insurance Company, Boston; Larry L. Guttenberg, secretary-treasurer, Franklin Mortgage Corp. Detroit; P. N. Brownstein, director, VA loan guaranty service, Washington, D. C.; Edwin G. Callahan, deputy director, FHA legal division, Washington, D. C.; Thomas J. Melody, vice president, The Lomas & Nettleton Company, New Haven; James T. Hillman, secretary-treasurer, Securities Mortgage Company, Seattle; Frank C. Haas, assistant vice president, Investors Diversified Services, Inc., Minneapolis; Paul R. Nordquist, vice president, The Colwell Company, Los Angeles; Mrs. Barbara J. Hoober, servicing manager, Don J. McMurray Company, Omaha; Charles L. Foley, vice president, First Mortgage Co. of Houston, Inc., Houston.

Also Edward J. DeYoung, vice president and controller, First Federal Savings and Loan Association of Detroit, Detroit; Stanley Le Bon, loan servicing officer, Metropolitan Mortgage Company, Los Angeles; John R. Womer, vice president, Great Lakes Mortgage Corporation, Chicago; William I. De Huszar, vice president and treasurer, Dovenmuehle, Inc., Chicago; James G. Wasson, MBA director of accounting and servicing; Morris S. Gindorf, vice president, Gulf Coast investment Corporation, Houston; A. A. Johnson, vice president, Colonial Mortgage Service Company, Upper Darby, Pa.; Joseph C. Hudson, treasurer, W. A. Clarke Mortgage Co., Philadelphia.

Also William A. Branigin, assistant secretary-treasurer, Carroll Mortgage Company, Seattle; Fred W. Klass, vice president-manager, Mortgage Servicing Division, McMillan Mortgage Co., Los Angeles; Robert J. Murphy, assistant director of MBA accounting and servicing division; Gordon Seibert, president, Nickels &

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Smith Co., Minneapolis; Ernest Kanrich, financial vice president, Percy Wilson Mortgage and Finance Corporation, Chicago; A. F. Potenziani, president, Mountain States Investment Corporation, Albuquerque.

Also Orville C. Nugent, Jr., assistant secretary, National Life & Accident Insurance Co., Nashville; Joseph Engleman, director of mortgage services, Mutual Life Insurance Company of New York, New York; August M. Strung, vice president, The Bowery Savings Bank, New York; Robert Sutro, president, Ralph C. Sutro Co., Los Angeles; John K. Benoit, manager,



Albert Drawbert



Joseph Engleman



G. L. Lippitt



W. I. DeHuszar



James Wasson



Robert Murphy

Investment Records Section, The Equitable Life Insurance Company of Iowa, Des Moines and E. A. Johnson, treasurer, Minnesota Mutual Life Insurance Company, St. Paul.

The Minneapolis Clinic Chairman is Albert A. Drawbert, manager, mortgage loan department, Northwestern National Life Insurance Company, Minneapolis, who has just been elected president of the Minneapolis MBA. His Association, in cooperation with the Title Insurance Company of Minnesota, will be host at a reception for all attending the Clinic.

Profiles of People at work in MBA

M. J. MITTENTHAL, a second-generation native of Dallas, is president of N. E. Mittenthal & Son, a firm founded by his father and which he joined immediately after graduating from the University of Texas, in 1928. Precisely three decades later, as recipient of the 1958 J. E. Foster Award, he won recognition as "Texas' Outstanding Mortgage Banker." A mortgage lender of diversified experience, he has been active in his city's slum clearance program and has served as a director of the Dallas Association of Insurance Agents. He was instrumental, too, in establishing the servicing seminars now sponsored annually by the Texas MBA. As vice president of that statewide group, he becomes its president in May. He is also a past president of the Dallas MBA. In MBA affairs, nationally, he is a former chairman of and continues active on the Insurance Committee; however, it is in the area of educational activity toward which he directs his most conscientious efforts. For M. J. believes firmly that this industry of ours is still very much in its elemental stages of growth, with its grass roots in the younger generation. Ever the bold experimenter, he conceived the idea for and staged a "Mortgage Bankers Day" at the University of Texas last October. The first meeting of its kind anywhere, it proved so successful that similar programs are being planned for other campuses. A regular lecturer at the MBA School of Mortgage Banking, M. J. is this year a vice chairman of the MBA Educational Committee, in charge of our Association's college liaison program—a program which under his energetic direction is again gaining new impetus.



W. C. RAINFORD, president of the Mercantile Mortgage Company in Granite City, Illinois, came into this industry through what might best be termed a circuitous route. Graduating Northwestern University's School of Commerce, he worked first in public accounting, then joined the auditing staff of a national food chain and, later, entered the retail lumber business. Activating a dormant mortgage company to promote the sale of lumber with FHA loans, he—once the lumber firm was sold, some 22 years ago—has been a full-time mortgage man ever since. A staunch proponent of branch office operations for mortgage firms, he is one of the best-informed individuals—he operates eight in three states — on this relatively new development in the industry. He lectures on this topic at the MBA School of Mortgage Banking. Possessed of an uninhibited enthusiasm for improving the "techniques" of mortgage lending, and quite an "idea man" in his own right, he is keenly receptive to all new ideas or operational methods which might expand further the scope of his mortgage banker's services. An M.A.I., Chuck (he seldom uses his first name, William) is a past director of the Home Builders Asociation of Illinois and a past president of both the Illinois and St. Louis MBA's. In 1957, he was local chairman of the MBA Servicing Clinic held in St. Louis. His record in MBA is an imposing one. An associate governor for four years and a regional vice president since 1956, he has worked on committees representative of all phases of Association effort; he has served as chairman of both the Research Committee and the Clinic Committee. Currently, he is a vice chairman of the MBA Mortgage Servicing Committee.



Sayles Is President Palm Beach County MBA



Herbert G. Sayles of West Palm Beach has been elected president of the MBA of Palm Beach County to succeed O. B. Carr of Anderson & Carr, Inc., West Palm Beach. At the installation meeting, seated, are Mr. Sayles and Lon Worth Crow, former president of the Florida MBA and installing officer. Standing, Mr. Carr; Donald Wood, secretary and treasurer; Leeson Hogarth, vice president of B. D. Cole, Inc. and vice president of Florida MBA and N. J. Orr, manager, mortgage loan department, Anderson & Carr, Inc., a director.

Chicago MBA and Florida MBA Again Sponsor Outstanding Educational Mortgage Clinics

Two of the larger regional mortgage associations, the Chicago MBA and Florida MBA, are sponsoring clinic-type seminars of an educational nature this year, both repeat performances of earlier successful efforts.

The Florida MBA Educational Clinic is April 20-22 in Gainesville, Florida in association with the University of Florida. The three-day sessions open Wednesday, extending through Friday and portions of the program are devoted to personnel problems, closing techniques, how to get new business, servicing and another devoted to a loan committee in action.

Among those who will speak or participate are W. Herbert Speir, Commander Corporation; George Hoffman, Stockton, Whatley, Davin & Company; Mrs. Phyllis Moore, Florida Mortgage Service, Inc.; Asa Gardner, Barnett National Bank of Jacksonville; Theo Mitchelson, State Farm Insurance Company; D. Richard Mead, Jr., D. R. Mead & Company;

Also Kenneth R. Flowers, First National Bank of Dunedin; James Phelps, The Northwestern Mutual Life Insurance Co.; Shelby C. Spears, Stockton, Whatley, Davin & Company; John A. Gilliland, Knight, Orr & Company, Inc.; Robin Brown, D. R. Mead & Company; Frank E. Denton, American Title Insurance Company; J. Walter Tucker, Jr., Tucker & Branham;

Also L. K. Horn, Lon Worth Crow Company; John K. Benoit, Equitable Life Insurance Company of Iowa; James Blankner, First National Bank of Orlando; Mrs. Mary Lee Davenport, Kirbo, Mills & McAlpin, Inc.; Mrs. Ethel Hunter, Lon Worth Crow Company and Mrs. Betty Robertson, The Builders Mortgage Corporation.

This Florida Educational Clinic is a high-quality educational offering and merits the close attention of all personnel in the mortgage business. Many in other parts of the country may find it convenient to avail themselves of the Clinic this year.

The second such offering is that of the Chicago MBA with a one-day Mortgage Seminar at the University of Chicago April 26. This is another highly worthwhile opportunity for mortgage lenders and investors. Among the speakers will be Beryl W. Sprinkel, economist, Harris Trust and Savings Bank, Chicago; Robert B. Patrick, vice president, Bankers Life Company, Des Moines and Edward E. Edwards, professor of finance, Indiana University.

A panel discussion is slanted at projecting the precise areas of future growth in Metropolitan Chicago. Moderator and participants include William W. Alberts, Graduate School of Business, University of Chicago; Roger L. Creighton, planning consultant, Chicago Area Transportation Study; Loren Trimble, director of territorial information, Commonwealth Edison Company and William T. Morgan, vice president in charge of real estate and corporate secretary, National Tea Company.

Name David Laux as Louisiana MBA Head

David Laux of New Orleans was elected president of the Louisiana MBA at the annual meeting, succeeding W. W. Baltar, III, New Orleans.

Other officers named at a one-day meeting of the group at the Roosevelt hotel are W. G. Cooksey, Lake Charles, senior vice president; A. K. Northrop Jr., New Orleans, vice president, and Russ Foti, Baton Rouge, treasurer.

MBA President B. B. Bass made the principal address of the Convention.

Another speaker was Dr. Arthur A. Smith, Dallas, long-time speaker at the MBA SMU Conference who had some short term and long term appraisals of the much-heralded Sixties.

The United States will just have to wait for the Seventies before it gives a "proper name to the Sixties," he said.

Optimism prevails as we enter a new decade and this is important but not the only ingredient in the "economic pie," he said.

Dr. Smith named these points as being on the credit side for a good decade ahead:

There will be population growth demanding all kinds of new consumer items. And these demands will require financing.

Growth will be astounding—economists predict 210 million persons in the U. S. by 1970. But all this growth will not be uniform. It will come to the cities, urban areas of 25,000 or more will boom but the smaller communities will suffer. The trend will still be away from the rural areas.

"It's going to be a whole lot of fun to watch the Sixties. Homes today as we know them will become obsolete," Dr. Smith said.

And on the debit side for the decade ahead Dr. Smith mentioned:

People will continue to act like people. They are never satisfied with wages or profits and they will continue to swing the economy to great extremes.

Business in the Sixties will continue to be swung from boom to reactions. Already the stock market has swung too high. Some blue chip stocks are selling for 20 and 50 times their earnings. Something has to happen.

There surely appears to be no lasting solution in sight for the differences between labor and management.

The recent steel strike will only lead other labor groups to seek increased wages, especially in an election year when these groups can get the attention of the administration in Washington.

T. K. Hartzler Is Columbus MBA Head

Marking the transfer of authority, Thomas K. Hartzler, seated left, incoming president of the Columbus MBA, accepts the gavel from outgoing president Ward C. Case at the organization's annual installation banquet. Other incoming officers taking part in the ceremony included, left to right, R. D. Williams, board of governors member; Fred C. Pixley, secretary-treasurer; and Hubbard Sherry, vice president.



EASY LENDING

(Continued from page 29)

rially to this change in price level.

There are others who say that the construction industry is the bulwark of our national economy, and that construction should be maintained at the highest possible level of activity in order to prevent an economic recession. They say, therefore, that if there is a cutback in the volume of construction or of the sale of houses, we must liberalize the terms of real estate loans immediately in order to prevent serious damage to the general economy.

We are now at an all-time high in our economy. Our loan terms are the most liberal in history. It would seem most unwise, therefore, to attempt to liberalize our loan terms further at this time. If there should be an economic contraction, it might be that we would desperately need some stimulation to prevent a serious drop in the economy. If we should liberalize our loan terms further at this time while at the peak of our economy, we might have little or nothing left to use as a stimulation in a time of great need.

Most economists say we can probably expect great expansion of our economy in the future. However, one of the most prominent real estate analysts in the United States, and one who has consistently forecast continually increasing activity in prices and real estate sales for the past 15 years, has just stated in his opinion inflation has run its course. He said inflation has become unpopular in the United States and also the rest of the world and that we have seen the last of it for some time. He said that we cannot use inflation further in this country at this time because our foreign competitors will not permit us to, and will prevent it by increased competition for the world market.

We have had some minor recessions in the past few years. It is possible that we could have another recession, and its intensity can be only a matter of conjecture. It would, therefore, seem to be the prudent approach not to liberalize real estate credit further at this time. It would seem far better judgment at this time to resist further liberalization as an effort to restrain further inflation, because further inflation could be disastrous to us locally, nationally, and internationally. Even though real estate activity in the coming year might be somewhat below the very high volume of the past several years, it nevertheless could be a very satisfactory year measured by long time averages. Growth will continue, and without unjustified stimulation could be more sound and less vulnerable to a severe reaction that often follows a "boom and bust" pattern.

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People Places Events



Walter Mahlstedt, vice president, Teachers Insurance and Annuity Association in charge of the securities department, has also been placed in charge of the company's mortgage and real estate department.

Mr. Mahlstedt started his career with TIAA in 1929. Named an officer in 1948, he was appointed vice president in 1955. He is a director of the Home Trust Company, a Fellow of the Life Office Management Association, and a member of the Society of LOMA Graduates.

He will fill a vacancy caused by the resignation of **Miles C. Babcock.**

Howard C. Peterson, president of the Fidelity-Philadelphia Trust Company, was elected a director of Commonwealth Title Insurance Company, Philadelphia.

Hal Mendon was elected executive vice president of California Bank. Mendon entered the California Bank in 1922 and four years later was made a branch manager. He was elected assistant cashier in 1930, junior vice president in 1934, and cashier in 1940. In May, 1941, he was elected vice president and placed in charge of the bank's real estate and instalment loan activities. Three years later he was made a senior vice president. He has been active in the Southern California MBA and California MBA.

James W. Gibson, Richard Keene and **Frank A. Rees** were elected assistant treasurers of John Hancock Mutual Life Insurance Co.

Mr. Gibson is associate director of the city mortgage department in charge of commercial loan production. Mr. Keene is associate director in charge of city mortgage field operations and Mr. Rees is associate director in charge of mortgage and real estate servicing.

The boards of The Title Guarantee Company and The Maryland Title Guarantee Company, both of Baltimore, have approved merger plans and negotiations are now under way to finalize the arrangement. The consolidated companies will have capital stock of $1,120,000, surplus and reserves of $1,900,000 and total assets of more than $3,000,000. It will operate in sixteen states, Puerto Rico and the District of Columbia, through 132 agents.

Guy T. O. Hollyday is chairman of The Title Guarantee Company and **Charles H. Buck** is president of The Maryland Title Guarantee Company.

Adventures in education—and good business: A clinic in mortgage financing procedures for Fairleigh Dickinson University students is being conducted by the J. I. Kislak Mortgage Corp., Jersey City.

Felix Beck, vice president, said the mortgage corporation, a division of J. I. Kislak, Inc., has developed a two-hour lecture embracing the entire mortgage market. Particular emphasis is placed on financing techniques involved in the sale of individual homes. A kit, containing mortgage forms, is given each student.

A second venture is the third annual "Spring Mortgage Clinic" for real estate brokers, sponsored by the Kislak organization.

Emanuel M. Brotman, the firm's executive vice president, said the course is designed to instruct brokers in the fundamentals of mortgage financing on residential properties with view to stimulating their sales of "used" homes.

Investment Corporation of Norfolk has opened a branch office in Virginia's Peninsula area in charge of **E. B. VanLeeuwen,** assistant secretary, assisted by **W. J. Leonard.**

Mortgage Services of Jacksonville, an organization in that city devoted entirely to mortgage loan servicing, had an all-day clinic recently, with the subject material entirely devoted to FNMA. Panelists, all from the Atlanta headquarters of FNMA, were **W. D. Cornwell,** assistant agency manager, **A. B. Drake,** assistant chief, loan division, and **R. L. Craven,** assistant comptroller. There were 168 registrants who attended classes in Selling, Servicing and Reporting.

William P. Curto, formerly supervising appraiser of income properties for Prudential has joined Greenebaum Mortgage Co., Chicago, as head of the appraisal division, handling negotiations in connection with mortgages on income properties.

New Members in MBA

CALIFORNIA, *Fullerton:* Fullerton Mortgage and Escrow Company, John W. Hartman; *San Marino:* Huntington Mortgage Company, O. B. Franz, Jr.

CONNECTICUT, *Stamford:* The Fairfield County Trust Company, A. H. Nelson, vice president.

FLORIDA, *Jacksonville:* American Heritage Life Insurance Company, W. A. Verlander, executive vice president-treasurer.

GEORGIA, *Atlanta:* McNeal and Company, William W. McNeal, president.

ILLINOIS, *Rockford:* City National Bank of Rockford, V. C. Nelson, manager, mortgage department.

INDIANA, *Indianapolis:* The College Life Insurance Company of America, Burchard Carr, manager, mortgage loan department.

IOWA, *Cedar Rapids:* General Mortgage Corporation of Iowa, H. F. Rice, branch manager.

KANSAS, *Salina:* The First Trust Company, Inc., Neal A. Anderson, vice president.

LOUISIANA, *Baton Rouge:* Port City Mortgage Corporation, W. F. Galloway, Jr., president.

MASSACHUSETTS, *Ludlow:* Ludlow Savings Bank, James P. Cormack, president.

MICHIGAN, *Jackson:* City Bank & Trust Co., D. M. Sommers, vice president.

MISSOURI, *Kansas City:* James B. Nutter & Company, James B. Nutter, president; *St. Louis:* St. Louis Union Trust Co., Carl W. Gusoskey, real estate officer.

MONTANA, *Billings:* Hall and Hall, Inc., Warren P. Hall, president.

NEW YORK, *New York:* Grace National Bank of New York, William J. O'Connell, vice president.

NORTH CAROLINA, *Charlotte:* First Union National Bank of North Carolina, Eugene B. Graham, assistant vice president; *Greensboro:* Willard Gourley, Jr.

PUERTO RICO, *San Juan:* Jose R. Noguera, Secretary of the Treasury of Puerto Rico.

UTAH, *Salt Lake City:* Broadway Investment Company, Hoyt S. Wimer, vice president.

VIRGINIA, *Roanoke:* Mortgage Investment Corporation, S. S. Edmunds, manager.

This Election Year

A long view of the country's growth and development shows that Presidential election years have proved to be periods of economic expansion and prosperity more often than not.

This trend is clearly apparent in the records going back over the past century, and particularly in the last two decades when some of the nation's best growth records were achieved; and it adds another element of confidence in the outlook for the current year as the preliminaries get underway for the election of the 35th President this November.

As it is, though exuberant year-end forecasts have moderated recently, the indications are that 1960 will prove to be another landmark year in American economic annals.

Our first $500 billion gross national product, as against under $480 billion in 1959, is still the general expectation, along with the establishment of other records in such fundamental yardsticks of progress as employment and income.

During the 25 Presidential election years in the past century, from 1860 through 1956, the figures show that economic activity was on the upbeat in 14 of those years, declined in eight, and was mixed in three. For the 15 Presidential election years since the turn of the present century, when the economy as we know it now began to take shape, the economic returns were eight years of rising activity, five years of decline, and two years of irregularity.

Thus for the last century as a whole, expansion has characterized more than half of the Presidential election years in the period. The score for the last two decades is even more impressive, with marked growth trends in four of the five Presidential election years since 1940. War and its aftermath have, of course, influenced the economy's performance since the Forties, just as depression left its imprint on the results in the Thirties.

Some of these Presidential election years stand out more than others in their economic performance and qualify as turning points in the subsequent course of events. One such in relatively recent history was 1920. That was the year during which the persistent inflationary trend of the first two decades of this century, which took on runaway aspects in the First World War period, came to an abrupt end, falling of its own excesses and carrying the whole economy with it in a short but deep recession.

PERSONNEL
AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

Junior executive for old, well established, small Texas mortgage company. Excellent opportunity for advancement. Give experience, age, salary expected. Write Box 645.

Approved mortgagee desires affiliation with out-of-town mortgage banker for representation in Pennsylvania and New Jersey. Best references. Write Box 646.

Mortgage Production Executive, 30, desires position with unlimited opportunity. Six years experience in broker and development financing, FHA-VA submissions, loan closing, interim financing, office management. Will relocate. Write Box 647.

SYSTEMS AND MANAGEMENT POSITION

Metropolitan St. Louis, Missouri mortgage company seeking person with experience in system procedures and controls. IBM background helpful, but not essential. In reply, submit résumé of education, experience, photograph and salary required. Write Box 648.

Obituaries

C. P. Kennedy, a member of the firm of Kennedy & Stevenson, mortgage bankers, Cincinnati, and a longtime former member of the MBA board of governors, died in his home city. Mr. Kennedy, or Perce as he was familiarly known, spent almost his entire career in mortgage banking. He was an enthusiastic chorister and was a member of a choral group which his son, Eldon Kennedy, directs. It was at a rehearsal of this choral group that Mr. Kennedy suffered a fatal attack.

EXECUTIVE MANAGEMENT POSITION

Excellent opportunity for young man in Metropolitan St. Louis, Missouri mortgage company experienced in mortgage loan processing. Working knowledge of servicing and insurance required. In reply, submit résumé of education, experience, photograph and salary. Write Box 649.

MORTGAGE LOAN
Appraiser—Loan Solicitor

Excellent opportunity with leading firm. Headquarters in Beverly Hills, California. Mortgage Loan Correspondent representing Life Insurance funds offers permanent position for capable mortgage loan appraiser with good loan production experience. Send résumé of education, experience, present employment status and salary. Replies will be held confidential. Write Box 650.

Large, well established Mideastern mortgage company seeks man about 40 years of age who has five or more years experience in origination of commercial and apartment mortgages. The right man with management capabilities can earn good salary, bonus and stock option arrangement. Please write in complete detail. All replies held confidential. Our organization is aware of this ad. Write Box 651.

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Present senior executive mortgage banking firm, servicing over $50 million in FHA, VA and Conventional loans for 20 investors, desires change. 13 years real estate mortgage experience, last 8 years with present firm. Intimately familiar with all executive level phases of mortgage banking, real estate sales, property management, life, fire, and casualty insurance and personnel functions. Age 40, excellent health. Desires position of responsibility with firm in Denver, Salt Lake City, or San Diego areas. Write Box 652.

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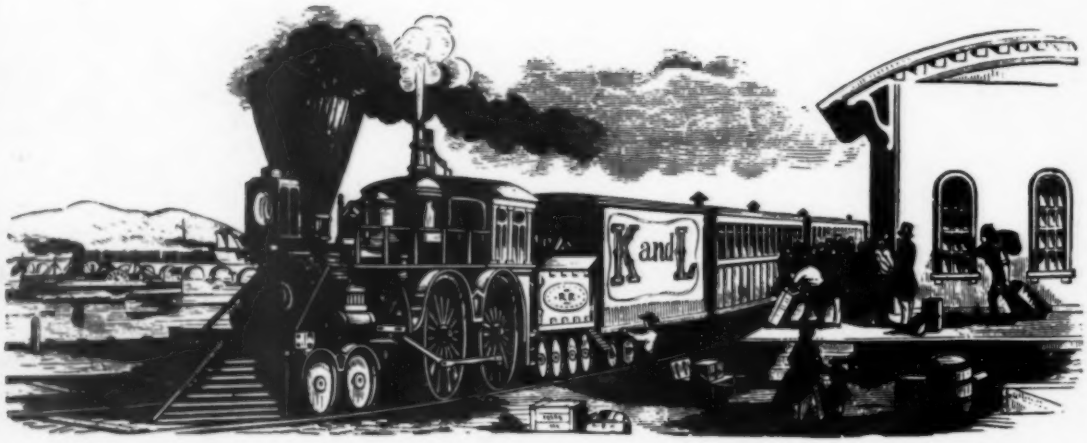
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